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# 2016 Annual Report

Sydbank Group



Sydbank





**A highly satisfactory result – due to low impairment charges, reduced costs and satisfactory investment portfolio earnings – ensures a record-high dividend distribution and a new share buyback programme of DKK 664m, bringing total distribution to DKK 1,400m equivalent to 95% of profit for the year after tax.**

Sydbank's 2016 financial statements show a profit before tax of DKK 1,869m compared with DKK 1,473m in 2015. The improvement is due to lower impairment charges, reduced costs and satisfactory investment portfolio earnings. Profit before tax equals a return of 16.6% p.a. on average shareholders' equity. The profit exceeds the expectations presented in the 2015 financial statements. Profit for the year equals a return of 13.1% on average shareholders' equity after tax.

CEO Karen Frøsig comments on the year's result:  
– I am very satisfied with the continued positive development in Sydbank in line with our strategic plan "Blue growth". 2016 ended better than expected at the beginning of the year. And the financial statements make it clear that Sydbank is a strong independent bank where loyal customers and competent employees contribute to the good result for the year. At the same time the reduction in total costs illustrates our structured and targeted efforts to operate our bank in a simple and efficient way for the benefit of our many customers.

Chairman of Sydbank's Board of Directors Torben Nielsen elaborates:

– We have generated a return of 13.1% on shareholders' equity, increased total lending in a highly competitive market and ensured a record-high distribution to shareholders. This is a result of efficient banking and contributes to ensuring that Sydbank will remain an independent and resourceful bank.

#### 2016 highlights

- A 3% decrease in core income
- A 10% rise in trading income
- A 3% reduction in costs (core earnings)
- A 72% decline in impairment charges for loans and advances
- A rise in core earnings of DKK 205m to DKK 1,758m

- Investment portfolio earnings of DKK 104m
- Bank loans and advances of DKK 77.2bn (2015: DKK 74.3bn)
- Deposits of DKK 81.1bn (2015: DKK 79.9bn)
- A capital ratio of 19.2%, including a Common Equity Tier 1 capital ratio of 16.1%
- An individual solvency need of 10.2%
- A proposed dividend of DKK 10.46 per share.

#### Outlook for 2017

Limited growth is projected for the Danish economy in 2017.

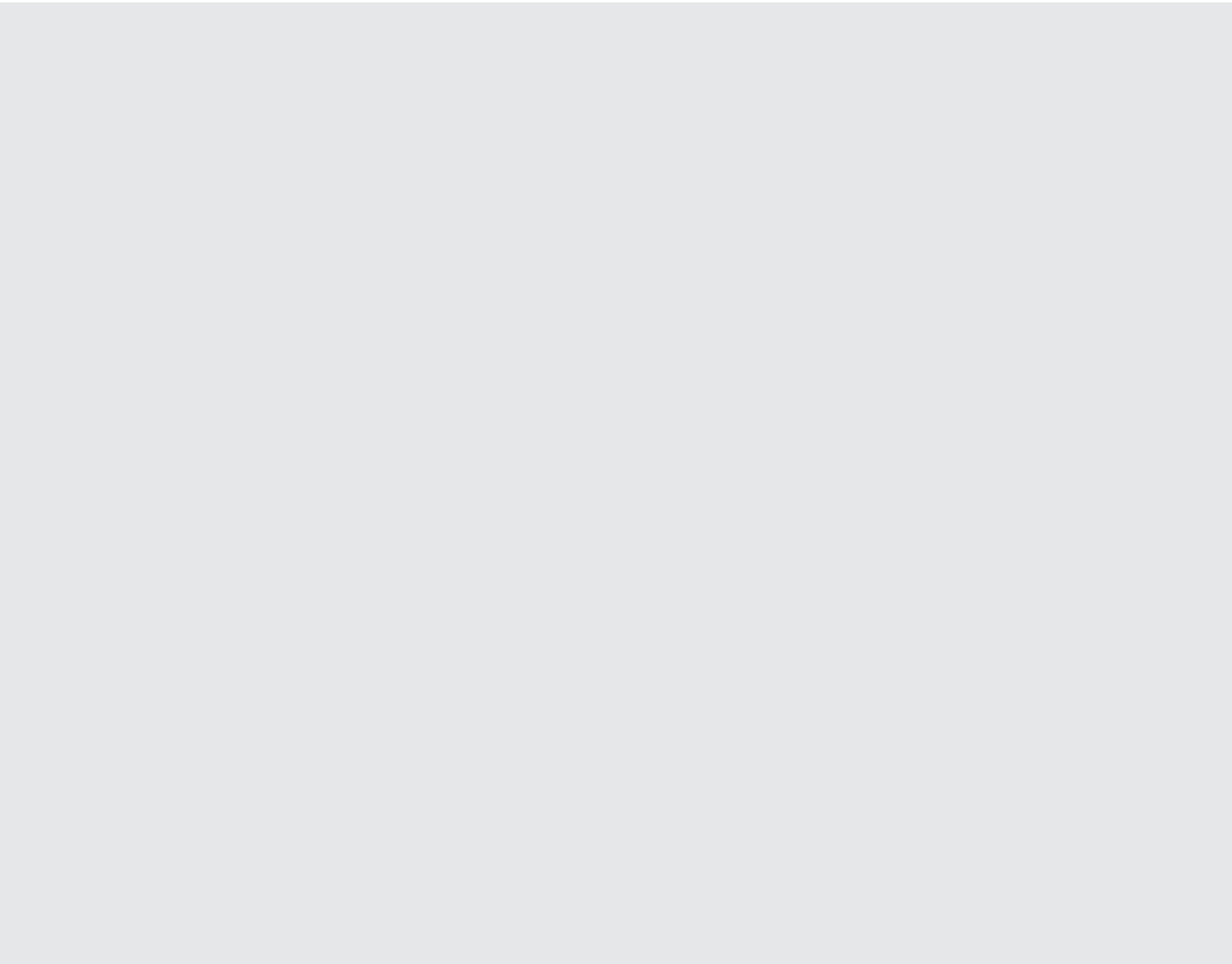
Based on the level of interest rates at the beginning of 2017, core income is expected to be on a par with the core income generated in 2016.

Trading income is projected to remain unchanged relative to income in 2016 but is dependent on financial market developments.

As a consequence of general pay rises for the financial sector and a payroll tax increase of 0.5%, costs (core earnings) are expected to rise slightly despite the measures implemented.

Impairment charges for 2017 are forecast to be on a par with the impairment charges recorded for 2016. The uncertainty surrounding price developments in the agricultural sector may however affect impairment charges.

As a result of intensified digitization of the Bank as well as the establishment of a new mortgage platform non-recurring costs are expected to represent around DKK 75m.



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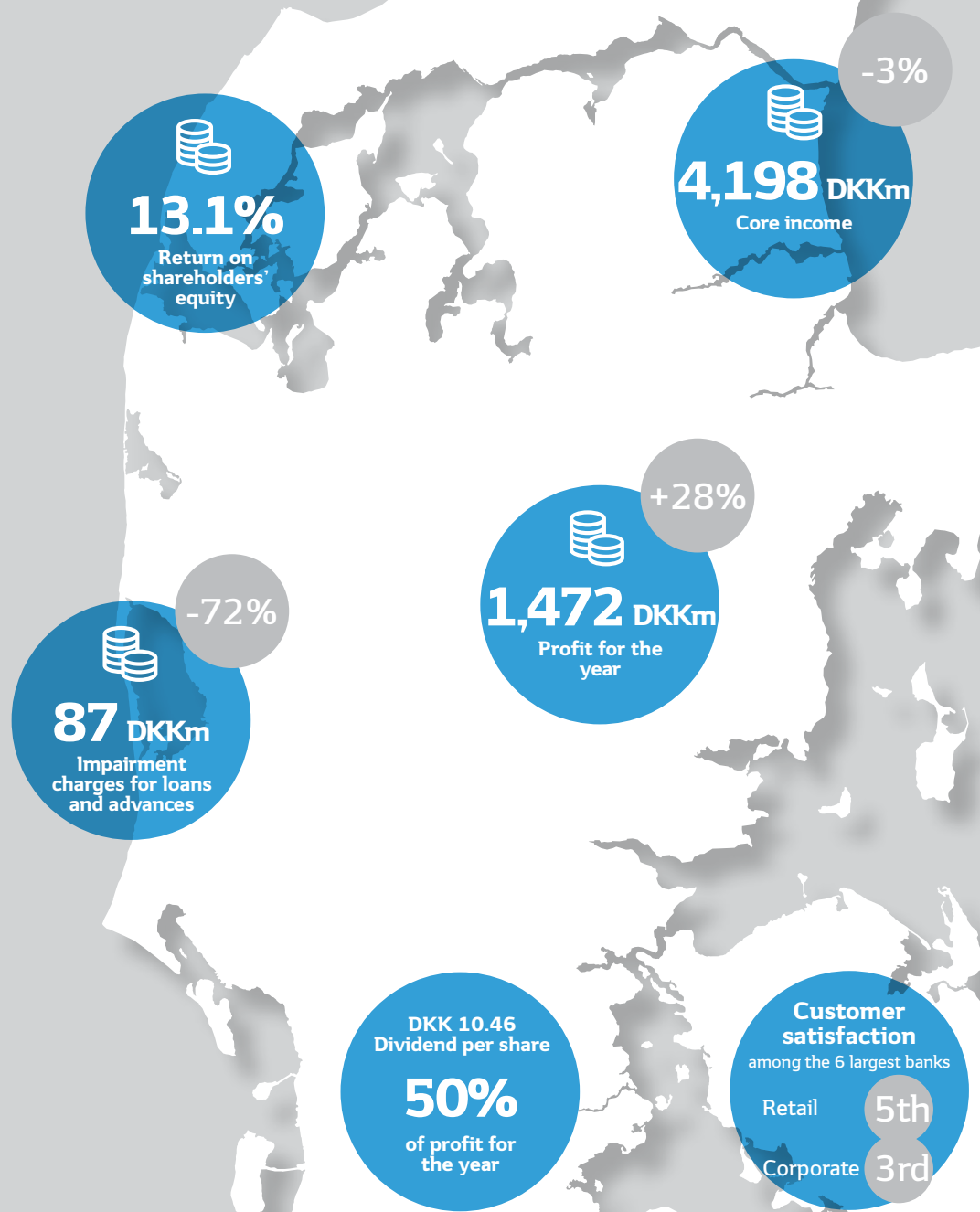
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## Management, Organisation etc

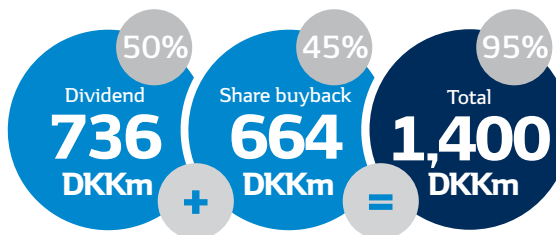
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The 2016 Annual Report is available in Danish at [sydbank.dk/regnskab](http://sydbank.dk/regnskab) and in English at [sydbank.com](http://sydbank.com).  
In case of doubt the Danish version will apply.

# A highly satisfactory result ensures a record-high dividend distribution and a new share buyback programme

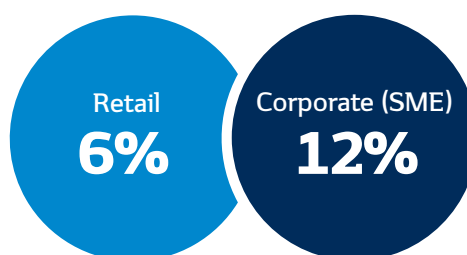


### Record-high distribution

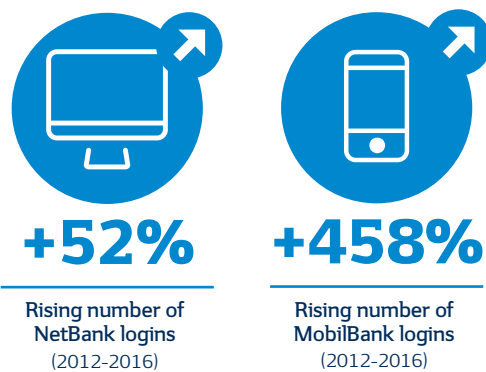


Sydbank distributes 50% (DKK 10.46 per share) of profit for the year after tax.

### Market shares



### Clients' use of the Bank



### Sydbank Direct

Open 8am-8pm – short response times



The average response time at Sydbank Direct in 2016 was 21 seconds on weekdays and 50 seconds at weekends.



# Group Financial Highlights

	2016	2015	Index 16/15	2014	2013	2012
<b>Income statement (DKK m)</b>						
Core income	4,198	4,329	97	4,319	4,058	4,229
Trading income	237	215	110	196	229	323
<b>Total income</b>	<b>4,435</b>	<b>4,544</b>	<b>98</b>	<b>4,515</b>	<b>4,287</b>	<b>4,552</b>
Costs, core earnings	2,590	2,675	97	2,619	2,514	2,482
<b>Core earnings before impairment</b>	<b>1,845</b>	<b>1,869</b>	<b>99</b>	<b>1,896</b>	<b>1,773</b>	<b>2,070</b>
Impairment of loans and advances etc	87	316	28	707	1,861	1,748
<b>Core earnings</b>	<b>1,758</b>	<b>1,553</b>	<b>113</b>	<b>1,189</b>	<b>(88)</b>	<b>322</b>
Investment portfolio earnings	104	(80)	-	76	319	397
<b>Profit before non-recurring items</b>	<b>1,862</b>	<b>1,473</b>	<b>126</b>	<b>1,265</b>	<b>231</b>	<b>719</b>
Non-recurring items, net	7	-	-	64	(60)	(95)
<b>Profit before tax</b>	<b>1,869</b>	<b>1,473</b>	<b>127</b>	<b>1,329</b>	<b>171</b>	<b>624</b>
Tax	397	325	122	277	(16)	157
<b>Profit for the year</b>	<b>1,472</b>	<b>1,148</b>	<b>128</b>	<b>1,052</b>	<b>187</b>	<b>467</b>
<b>Balance sheet highlights (DKK bn)</b>						
Loans and advances at amortised cost	77.2	74.3	104	68.5	66.6	68.2
Loans and advances at fair value	6.1	10.2	60	6.9	4.9	6.1
Deposits and other debt	81.1	79.9	102	73.9	70.0	65.7
Bonds issued at amortised cost	3.7	3.7	100	3.7	6.5	4.0
Subordinated capital	2.1	2.1	100	1.4	1.8	1.4
Shareholders' equity	11.8	11.4	104	11.3	10.2	10.0
Total assets	146.7	142.7	103	152.3	147.9	152.7
<b>Financial ratios per share (DKK per share of DKK 10)</b>						
EPS Basic	20.9	15.8		14.3	2.5	6.4
EPS Diluted	20.9	15.8		14.3	2.5	6.4
Share price at year-end	219.2	221.8		190.2	144.0	99.7
Book value	169.2	160.2		154.2	139.7	137.6
Share price/book value	1.30	1.38		1.23	1.03	0.72
Average number of shares outstanding (in millions)	70.4	72.5		73.3	73.4	73.1
Proposed dividend	10.46	11.12		7.08	-	-
<b>Other financial ratios and key figures</b>						
Common Equity Tier 1 capital ratio	16.1	14.5		13.9	13.4	13.8
Tier 1 capital ratio	17.4	15.9		15.5	15.3	15.6
Capital ratio	19.2	17.6		16.0	15.7	15.9
Pre-tax profit as % of average shareholders' equity	16.6	13.3		12.4	1.6	6.4
Post-tax profit as % of average shareholders' equity	13.1	10.2		9.6	1.8	4.7
Costs (core earnings) as % of total income	58.4	58.9		58.0	58.6	54.5
Return on assets (%)	1.02	0.78		0.70	0.12	0.31
Interest rate risk	1.6	2.8		0.0	0.6	1.8
Foreign exchange position	2.2	2.2		1.8	2.1	0.9
Foreign exchange risk	0.0	0.0		0.0	0.0	0.0
Loans and advances relative to deposits	0.8	0.8		0.8	0.8	0.9
Loans and advances relative to shareholders' equity	6.6	6.5		6.1	6.5	6.8
Growth in loans and advances for the year	3.9	8.5		2.8	(2.3)	(1.0)
Excess cover relative to statutory liquidity requirements	186.5	166.8		142.2	179.8	127.4
Total large exposures	0.0	0.0		0.0	25.8	21.6
Accumulated impairment ratio	3.6	4.7		5.1	5.4	3.8
Impairment ratio for the year	0.1	0.4		0.8	2.3	2.2
Number of full-time staff at year-end	2,037	2,044	100	2,101	2,231	2,132

Financial ratio definitions on page 94.



# Summary

A highly satisfactory result – due to low impairment charges, reduced costs and satisfactory investment portfolio earnings – ensures a record-high dividend distribution and a new share buyback programme of DKK 664m, bringing total distribution to DKK 1,400m equivalent to 95% of profit for the year after tax.

Sydbank's 2016 financial statements show a profit before tax of DKK 1,869m compared with DKK 1,473m in 2015. The improvement is due to lower impairment charges, reduced costs and satisfactory investment portfolio earnings. Profit before tax equals a return of 16.6% p.a. on average shareholders' equity. The profit exceeds the expectations presented in the 2015 financial statements.

Profit for the year represents DKK 1,472m against DKK 1,148m in 2015, equal to a return on average shareholders' equity of 13.1% after tax.

## The 3-year plan "Blue growth"

The plan for the 3-year period 2016–2018 is named "Blue growth". The objective of the plan is to ensure that the positive development in the Group's profitability is sustained.



## Blue growth – financial targets

- Realise a return on shareholders' equity of a minimum of 12% after tax or be in the top 3 of the 6 largest banks
- Maintain top 3 ranking among the 6 largest banks in terms of customer satisfaction.

## Status – targets

Target	Objective	Status at 31 Dec 2016	Comment
Return on shareholders' equity after tax	Over 12%*	13.1%	Progressing as planned
Customer satisfaction – Corporate	Top 3**	3rd – Aalund	Met in 2016
Customer satisfaction – Retail	Top 3**	5th – EPSI	Not met in 2016
Common Equity Tier 1 capital ratio	Around 13.5%	16.1%	Met from Q3 2013
Capital ratio	Around 17.0%	19.2%	Met from Q1 2015
Dividend	30-50% of profit for the year after tax	50% of profit for the year after tax (proposed)	Met in 2016 (proposed dividend)

\* or top 3 ranking among the 6 largest banks

\*\* among the 6 largest banks

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# Summary

## Results for 2016

As a result of the negative interest rate environment combined with fierce competition in the sector, the Group's net interest income remains under pressure. Net interest income has decreased by DKK 81m or 3% to DKK 2,323m despite a rise in bank loans and advances of 4%. Core income has declined by DKK 131m or 3% to DKK 4,198m. Apart from the decrease in net interest income the decline in core income is mainly attributable to a fall in income from remortgaging and loan fees of DKK 89m. The decline is a result of the exceptionally high remortgaging activity in 1H 2015 as well as the fee exemption implemented in 2016 due to the turmoil that arose in connection with the announced increases in administration margins on mortgage loans.

Trading income has increased by DKK 22m or 10% compared with 2015.

Total income has declined by DKK 109m or 2% compared with 2015.

At Sydbank costs (core earnings) are a constant focus area and in 2016 the Bank maintained tight control of costs (core earnings). Costs (core earnings) have been reduced by DKK 85m compared with 2015.

The Group's impairment charges for loans and advances:

- have declined by DKK 229m to DKK 87m compared with 2015
- represent an income of DKK 27m in Q4 2016 despite an increase in collective impairment charges of DKK 30m as regards agricultural exposures.

Core earnings have increased by DKK 205m to DKK 1,758m compared with DKK 1,553m in 2015. The improvement is mainly attributable to the decrease in impairment charges for loans and advances.

Together the Group's position-taking and liquidity handling generated investment portfolio earnings of DKK 104m in 2016 compared with negative investment portfolio earnings of DKK 80m in 2015.

Profit before tax rose to DKK 1,869m in 2016 compared to DKK 1,473m in 2015. Tax has been calculated at DKK 397m. Profit for the year amounts to DKK 1,472m compared with DKK 1,148m in 2015.

During the year Sydbank recorded an increase in bank loans and advances of DKK 2.9bn. This is satisfactory given the highly competitive market. Growth in deposits amounted to DKK 1.2bn during the same period.

Return on shareholders' equity before and after tax constitutes 16.6% and 13.1%, respectively, against 13.3% and 10.2% in 2015.

Earnings per share has increased to DKK 20.9 from DKK 15.8 in 2015.

During the year shareholders' equity grew by DKK 330m to DKK 11,757m.

Less the proposed dividend, the Common Equity Tier 1 capital ratio and the capital ratio stand at 16.1% and 19.2%, respectively, at year-end 2016 compared to 14.5% and 17.6% at year-end 2015.

At 31 December 2016 the individual solvency need represented 10.2% (2015: 9.7%).

## SIFI

Sydbank has been designated as a SIFI (systemically important financial institution) in Denmark. As a result the Bank is subject to an additional buffer requirement of 0.4% as regards Common Equity Tier 1 capital in 2016. The requirement will gradually rise to 1% in 2019.

## Capital targets

The Group's capital targets are a Common Equity Tier 1 capital ratio of around 13.5% and a capital ratio of around 17.0%.

## Proposed dividend for 2016

The Board of Directors proposes – in compliance with the Bank's dividend policy – that a dividend of DKK 10.46 per share, equal to 50% of the Group's profit after tax, be distributed and that DKK 10m be donated to the sponsorship fund Sydbank Fonden.

No dividend will be paid as regards the shares acquired in connection with the share buyback programme completed in 2016.

### Share buyback in 2017

Following distribution of the proposed dividend, the capital ratios will remain above the capital targets. As a result the Board of Directors has resolved to initiate a share buyback totalling DKK 664m in 2017.

The Group will continue to be highly capitalised after the proposed dividend distribution and the share buyback. The strong capital base will be maintained also after excess capital has been paid to shareholders.

### Outlook for 2017

Limited growth is projected for the Danish economy in 2017.

Based on the level of interest rates at the beginning of 2017, core income is expected to be on a par with the core income generated in 2016.

Trading income is projected to remain unchanged relative to income in 2016 but is dependent on financial market developments.

As a consequence of general pay rises for the financial sector and a payroll tax increase of 0.5%, costs (core earnings) are expected to rise slightly despite the measures implemented.

Impairment charges for 2017 are forecast to be on a par with the impairment charges recorded for 2016. The uncertainty surrounding price developments in the agricultural sector may however affect impairment charges.

As a result of intensified digitization of the Bank as well as the establishment of a new mortgage platform non-recurring costs are expected to represent around DKK 75m.

# Performance in 2016

The Sydbank Group has recorded a profit before tax of DKK 1,869m (2015: DKK 1,473m). The performance exceeds the expectations at the beginning of the year. Profit before tax equals a return of 16.6% p. a. on average shareholders' equity.

Profit for the year represents DKK 1,472m against DKK 1,148m in 2015, equal to a return on average shareholders' equity of 13.1% after tax.

The financial statements are characterised by the following:

## 2016

- A 3% decrease in core income
- A 10% rise in trading income
- A 3% reduction in costs (core earnings)
- A 72% decline in impairment charges for loans and advances
- A rise in core earnings of DKK 205m to DKK 1,758m
- Investment portfolio earnings of DKK 104m
- Bank loans and advances of DKK 77.2bn (2015: DKK 74.3bn)
- Deposits of DKK 81.1bn (2015: DKK 79.9bn)
- A capital ratio of 19.2%, including a Common Equity Tier 1 capital ratio of 16.1%
- An individual solvency need of 10.2%
- A proposed dividend of DKK 10.46 per share.

## Q4

- Impairment charges for loans and advances represent an income of DKK 27m despite an increase in collective impairment charges of DKK 30m as regards agricultural exposures.
- Profit for the period amounts to DKK 444m.

## Income statement

Group (DKKm)	2016	2015
Core income	4,198	4,329
Trading income	237	215
<b>Total income</b>	<b>4,435</b>	<b>4,544</b>
Costs, core earnings	2,590	2,675
<b>Core earnings before impairment</b>	<b>1,845</b>	<b>1,869</b>
Impairment of loans and advances etc	87	316
<b>Core earnings</b>	<b>1,758</b>	<b>1,553</b>
Investment portfolio earnings	104	(80)
<b>Profit before non-recurring items</b>	<b>1,862</b>	<b>1,473</b>
Non-recurring items, net	7	-
<b>Profit before tax</b>	<b>1,869</b>	<b>1,473</b>
Tax	397	325
<b>Profit for the year</b>	<b>1,472</b>	<b>1,148</b>

## Core income

Total core income has declined by DKK 131m to DKK 4,198m.

Net interest has decreased by DKK 81m to DKK 2,323m despite a rise in bank loans and advances of 3.9%. As a result of the negative interest rate environment combined with fierce competition in the sector, the Group's net interest income remains under pressure.

Net income from the cooperation with Totalkredit represents DKK 291m (2015: DKK 294m) after a set-off of loss of DKK 23m (2015: DKK 32m). The cooperation with DLR Kredit has generated an income of DKK 107m (2015: DKK 79m). Compared to 2015 total mortgage credit income has gone up by DKK 24m to DKK 400m – an increase of 6%.

Income from remortgaging and loan fees has dropped by DKK 89m to DKK 70m compared to 2015 – a decrease of 56%. The decline is a result of the exceptionally high remortgaging activity in 1H 2015 as well as the temporary price adjustments implemented due to the turmoil that arose in connection with the announced increases in administration margins on mortgage loans in 2016.

Commission and brokerage income has decreased by DKK 53m to DKK 354m – a decline of 13% compared with 2015.

Income from asset management has climbed by DKK 37m to DKK 220m – a rise of 20% compared with 2015. DKK 23m of the rise is attributable to performance related fees.

The remaining income components have risen by DKK 31m compared to 2015, equal to 4%.

## Core income

Group (DKKm)	2016	2015
Net interest etc	2,323	2,404
Mortgage credit	400	376
Payment services	199	207
Remortgaging and loan fees	70	159
Commission and brokerage	354	407
Commission etc investment funds and pooled pension plans	381	341
Asset management	220	183
Custody account fees	71	75
Other operating income	180	177
<b>Total</b>	<b>4,198</b>	<b>4,329</b>

### Trading income

Compared with 2015 trading income has increased by DKK 22m to DKK 237m and is composed as follows in terms of business units:

#### Trading income

Group (DKKm)	2016	2015
Fixed Income	135	74
Equities	65	83
Money Market and Foreign Exchange	37	58
<b>Total</b>	<b>237</b>	<b>215</b>

The increase is attributable to Fixed Income. In 2016 activity in Fixed Income was at a satisfactory level. The credit spreads on mortgage bonds have narrowed, which has resulted in a positive trading portfolio return.

Equities has generated an income of DKK 65m. Activity in 2016 was at a lower level than in 2015.

Money Market and Foreign Exchange has generated an income of DKK 37m, a decline of DKK 21m.

### Costs and depreciation

The Group's costs and depreciation totalled DKK 2,621m, equal to a decrease of DKK 61m compared to 2015.

#### Costs and depreciation

Group (DKKm)	2016	2015
Staff costs	1,519	1,552
Other administrative expenses	968	903
Amortisation/depreciation and impairment of intangible assets and property, plant and equipment	115	97
Other operating expenses	19	130
<b>Total</b>	<b>2,621</b>	<b>2,682</b>
Distributed as follows:		
Costs, core earnings	2,590	2,675
Costs, investment portfolio earnings	7	7
Non-recurring costs	24	-

Costs (core earnings) represent DKK 2,590m compared with DKK 2,675m in 2015. This development is attributable in part to the effect of the termination of payments to the deposit guarantee scheme and the contribution to the new resolution fund. Net savings amount to DKK 112m in 2016 compared with the cost in 2015.

The development in staff costs is impacted by:

- a reduction in the average number of employees of 76 compared with the number in 2015
- a 1.80% pay increase in 2016 relating to collective agreements
- a payroll tax increase of 1.40% in 2016.

At year-end 2016 the Group's staff numbered 2,037 (full-time equivalent).

As a consequence of the Bank's ongoing adjustment of its service concept and its efforts to reduce costs (core earnings), seven small branches were amalgamated during the year. This brings the number of branches to 64 in Denmark and three in Germany.

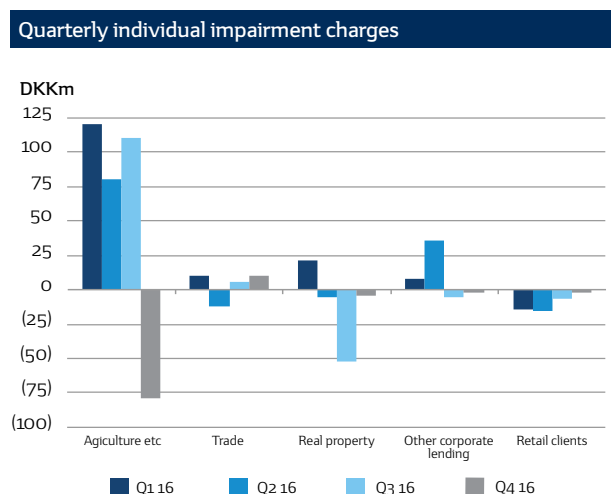
### Core earnings before impairment of loans and advances

Core earnings before impairment charges for loans and advances represent DKK 1,845m – a decrease of DKK 24m compared with 2015.

### Impairment of loans and advances etc

Impairment charges for loans and advances represent DKK 87m against DKK 316m in 2015, ie a reduction of DKK 229m.

The chart below shows the quarterly individual impairment charges for bank loans and advances as regards agriculture etc, trade, real property, other corporate lending as well as retail clients.



## Performance in 2016

In Q4 a net reversal of impairment charges of DKK 79m regarding agricultural exposures was recorded. This is predominantly a consequence of the conversion of bank loans and advances to subordinated loan capital as regards 48 selected farmers. The subordinated loan capital has been written off for accounting purposes. The overall effect of the conversion is a reversal of individual impairment charges of DKK 72m in Q4 2016. As regards impairment charges relating to the other main groups, some quarters saw net impairment charges and some quarters saw net reversals of impairment charges. The overall picture shows a declining trend in 2016.

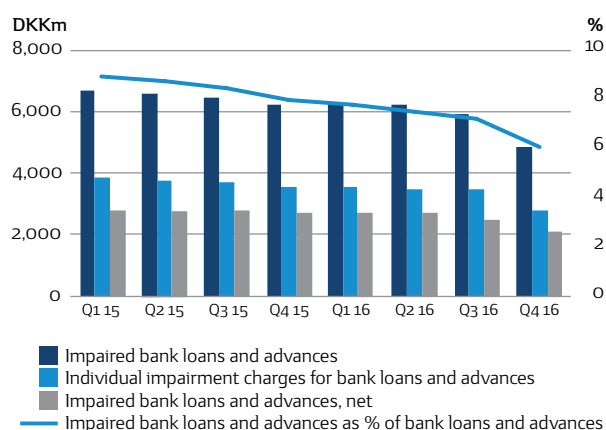
Collective impairment charges were negatively affected by collective impairment charges regarding agricultural exposures of DKK 30m in Q4 2016.

In 2016 the agricultural sector continued to be in a challenging financial situation due to an overall large debt burden in the sector as well as low settlement prices of farming products – mainly milk and pork. However at the beginning of 2017 the situation has improved significantly, mainly as a result of rising settlement prices. Reference is made to the separate publication Credit Risk 2016 for further elaboration.

At year-end 2016 the impairment ratio for the year represents 0.11% relative to bank loans and advances and 0.09% relative to bank loans and advances and guarantees. At year-end 2016 accumulated impairment and provisions amount to DKK 3,289m (2015: DKK 4,182m).

Impairment charges for the year for loans and advances etc of DKK 87m (2015: DKK 316m) consist of DKK 231m (2015: DKK 116m) regarding agriculture, DKK 14m (2015: DKK 14m) regarding trade, minus DKK 40m (2015: DKK 10m) regarding real property, DKK 37m (2015: minus DKK 24m) regarding other corporate lending and minus DKK 38m (2015: DKK 6m) regarding retail clients as well as minus DKK 117m (2015: DKK 194m) regarding collective impairment charges. Minus DKK 75m (2015: DKK 100m) of the collective impairment charges is attributable to agriculture.

### Individually impaired bank loans and advances



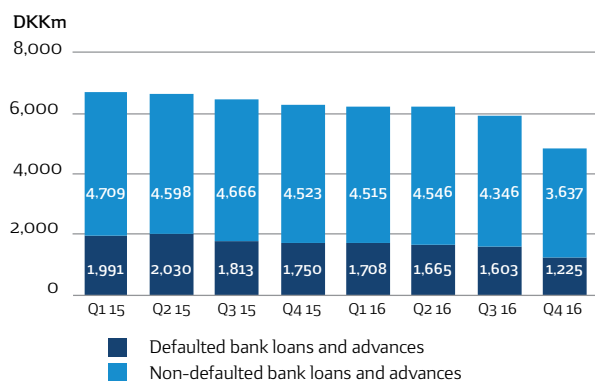
During the year impaired bank loans and advances before impairment charges declined by DKK 1,411m to DKK 4,862m (2015: DKK 6,273m). During the same period individually impaired bank loans and advances after impairment charges decreased by DKK 620m, equal to 23%. Impairment charges for bank loans and advances subject to individual impairment represent 57.1% (2015: 56.9%). The decline in impaired bank loans and advances is primarily a consequence of the conversion of bank loans and advances as regards agricultural exposures to subordinated loan capital and the subsequent write-off for accounting purposes.

### Individually impaired bank loans and advances

Group (DKKm)	2016	2015
Non-defaulted bank loans and advances	3,637	4,523
Defaulted bank loans and advances	1,225	1,750
Impaired bank loans and advances	4,862	6,273
Impairment charges for bank loans and advances subject to individual impairment	2,778	3,569
Impaired bank loans and advances after impairment charges	2,084	2,704
Impaired bank loans and advances as % of bank loans and advances before impairment charges	6.1	8.0
Impairment charges as % of bank loans and advances before impairment charges	3.5	4.6
Impaired as % of impaired bank loans and advances	57.1	56.9
Impairment charges as % of defaulted bank loans and advances	226.8	203.9

The figure below shows the breakdown of impaired bank loans and advances in terms of defaulted bank loans and advances and non-defaulted bank loans and advances. The bulk of impaired bank loans and advances concern non-defaulted bank loans and advances.

### Breakdown of impaired bank loans and advances



Defaulted bank loans and advances declined by DKK 525m in 2016 and non-defaulted bank loans and advances decreased by DKK 886m. The considerable decline in impaired bank loans and advances of DKK 1,087m in Q4 2016 is attributable to a decrease in impaired bank loans and advances as regards agricultural exposures of DKK 879m. The decline regarding agricultural exposures is primarily a consequence of the implementation in Q4 2016 of a conversion of the debt concerning 48 agricultural exposures to subordinated loan capital. The subordinated loan capital has been written off for accounting purposes.

#### Core earnings

Core earnings for 2016 represent DKK 1,758m – an increase of DKK 205m compared with 2015.

#### Investment portfolio earnings

Together the Group's position-taking and liquidity handling generated positive earnings of DKK 104m in 2016 compared with negative earnings of DKK 80m in 2015.

#### Investment portfolio earnings

Group (DKKm)	2016	2015
Position-taking	100	(116)
Liquidity generation and liquidity reserves	9	41
Strategic positions	2	2
Costs	(7)	(7)
<b>Total</b>	<b>104</b>	<b>(80)</b>

The positive result in 2016 is a consequence of the excess yield on Danish mortgage bonds relative to the risk-free interest rate as well as a narrowing of the credit spreads on mortgage bonds – notably in the last months of the year.

The interest rate risk at year-end is positive – as a result an interest rate increase will have an adverse impact on the Group's result.

Margin expenses as regards the Group's senior issues are included under liquidity generation and liquidity reserves and represent DKK 35m in 2016 compared to DKK 29m in 2015.

#### Non-recurring items, net

Non-recurring items total a net income of DKK 7m (2015: DKK 0m). This item includes one-off income of DKK 31m concerning the subsequent adjustment of the purchase sum from the sale of the shares in Nets Holding in 2014 as well as process optimisation costs of DKK 24m in relation to Blue growth.

#### Profit for the year

Profit before tax amounts to DKK 1,869m (2015: DKK 1,473m). Tax represents DKK 397m (2015: DKK 325m), equivalent to an effective tax rate of 21.3%. Profit for the year amounts to DKK 1,472m (2015: DKK 1,148m).

#### Return

Return on shareholders' equity before and after tax constitutes 16.6% and 13.1%, respectively, against 13.3% and 10.2% in 2015. Earnings per share has increased to DKK 20.9 from DKK 15.8 in 2015.

#### Sydbank – the parent

The Bank's total income before costs and impairment charges for loans and advances represents DKK 4,489m (2015: DKK 4,385m). The income includes the consolidated profit on holdings in associates and subsidiaries of DKK 71m (2015: loss of DKK 23m).

Total costs including non-recurring costs of DKK 24m (2015: DKK 0m) constitute DKK 2,552m (2015: DKK 2,617m).

An impairment charge of DKK 87m (2015: DKK 316m) concerning bank loans and advances has been recorded.

Profit before tax amounts to DKK 1,839m (2015: DKK 1,457m).

#### Subsidiaries

Profit after tax of the subsidiaries represents DKK 76m (2015: loss of DKK 15m).

#### Group – Q4 2016

The Group's profit before tax for the quarter represents DKK 560m. Tax represents DKK 116m and profit for the period amounts to DKK 444m.

Compared with Q3 2016 profit before tax shows:

- a core income of DKK 1,067m (Q3: DKK 1,030m)
- a trading income of DKK 49m (Q3: DKK 65m)
- a rise in costs (core earnings) of DKK 20m
- a decline in impairment charges for loans and advances of DKK 60m
- investment portfolio earnings of DKK 63m (Q3: DKK 49m).

# Performance in 2016

## Profit for the period

Group (DKKm)	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015
Core income	1,067	1,030	1,051	1,050	1,040
Trading income	49	65	69	54	48
<b>Total income</b>	<b>1,116</b>	<b>1,095</b>	<b>1,120</b>	<b>1,104</b>	<b>1,088</b>
Costs, core earnings	632	612	665	681	666
<b>Core earnings before impairment</b>	<b>484</b>	<b>483</b>	<b>455</b>	<b>423</b>	<b>422</b>
Impairment of loans and advances etc	(27)	33	43	38	44
<b>Core earnings</b>	<b>511</b>	<b>450</b>	<b>412</b>	<b>385</b>	<b>378</b>
Investment portfolio earnings	63	49	14	(22)	7
<b>Profit before non-recurring items</b>	<b>574</b>	<b>499</b>	<b>426</b>	<b>363</b>	<b>385</b>
Non-recurring items, net	(14)	(5)	26	-	-
<b>Profit before tax</b>	<b>560</b>	<b>494</b>	<b>452</b>	<b>363</b>	<b>385</b>
Tax	116	109	92	80	69
<b>Profit for the period</b>	<b>444</b>	<b>385</b>	<b>360</b>	<b>283</b>	<b>316</b>

## Total assets

The Group's total assets made up DKK 146.7bn at year-end 2016 against DKK 142.7bn at year-end 2015.

### Assets

Group – year-end (DKKbn)	2016	2015
Amounts owed by credit institutions etc	9.0	5.2
Loans and advances at fair value (reverse transactions)	6.1	10.2
Loans and advances at amortised cost (bank loans and advances)	77.2	74.3
Securities and holdings etc	28.3	28.3
Assets related to pooled plans	13.8	12.0
Other assets etc	12.3	12.7
<b>Total</b>	<b>146.7</b>	<b>142.7</b>

The Group's bank loans and advances total DKK 77.2bn. Compared to 2015 this constitutes an increase of DKK 2.9bn or 4%. Corporate lending has decreased by DKK 0.6bn, retail lending has gone up by DKK 3.5bn, and Sydbank Prioritetslån (mortgage-like loans) have risen by DKK 4.5bn.

## Shareholders' equity and liabilities

Group – year-end (DKKbn)	2016	2015
Amounts owed to credit institutions etc	17.6	17.8
Deposits and other debt	81.1	79.9
Deposits in pooled plans	13.8	12.0
Bonds issued	3.7	3.7
Other liabilities etc	16.2	15.5
Provisions	0.4	0.3
Subordinated capital	2.1	2.1
Shareholders' equity	11.8	11.4
<b>Total</b>	<b>146.7</b>	<b>142.7</b>

As of 1 April 2016 the Group initiated the funding of mortgage-like loans with Totalkredit following the agreement on joint funding. The funding represents DKK 5.3bn at year-end 2016 and is included in "Amounts owed to credit institutions etc".

The Group's deposits make up DKK 81.1bn. Compared to 2015 this constitutes an increase of DKK 1.2bn or 1.5%. Deposits have increased due to a rise in demand deposits of DKK 4.1bn, a decrease in deposits at notice of DKK 1.0bn, a decline in time deposits of DKK 1.6bn and a decrease of DKK 0.3bn regarding special categories of deposits.



### The Sydbank share

Number	2016	2015
Average number of shares outstanding	70,392,671	72,501,307
Number of shares outstanding at year-end	69,501,452	71,334,716
Number of shares issued at year-end	72,240,199	74,249,999

### Share capital

As a result of a capital reduction implemented in 2016 the share capital has declined from DKK 742,499,990 at year-end 2015 to DKK 722,401,990 at year-end 2016.

The number of shares outstanding has decreased from 71,334,716 (96.07%) at the end of 2015 to 69,501,452 (96.21%) at the end of 2016. The book value of the Sydbank share represents 169.2 (2015: 160.2). At year-end 2016 the closing price of the Sydbank share stood at 219.2, and share price/book value at 1.30.

### Shareholders' equity

At year-end 2016 shareholders' equity constitutes DKK 11,757m – an increase of DKK 330m since the beginning of the year. The change comprises an addition from profit for the year of DKK 1,472m, net purchases of own shares of DKK 339m as well as dividend distribution etc of DKK 803m.

### Capital

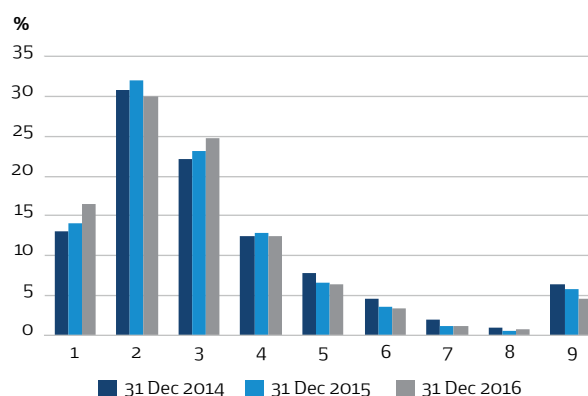
Since year-end 2015 risk-weighted assets have decreased by DKK 4.4bn to DKK 63.6bn. Credit risk has gone down by DKK 3.2bn despite a net increase in loans and advances and guarantees of DKK 3.8bn since year-end 2015. Market risk has declined by DKK 0.8bn mainly as a result of lower interest rate risk. Other exposures have dropped by DKK 0.4bn.

### Risk-weighted assets

Group – year-end (DKKbn)	2016	2015
Credit risk	41.7	44.9
Market risk	8.1	8.9
Operational risk	8.0	8.2
Other exposures incl CVA	5.8	6.0
<b>Total</b>	<b>63.6</b>	<b>68.0</b>

The development in the breakdown by rating category from 2014 to 2016 is shown below.

### Gross exposure by rating category



The gross exposure consists of loans and advances, undrawn credit commitments, interest receivable, guarantees and counterparty risk on derivatives. The graph comprises exposures treated according to IRB. Exposures relating to clients in default are not included in the breakdown of rating categories. Impairment charges for exposures have not been deducted from the exposure.

The gross exposure by rating category shows a positive development with an increasing share in the four best rating categories and a falling share in the five poorest rating categories.

Reference is made to the note on credit risk on page 101 and the separate publication Credit Risk 2016.

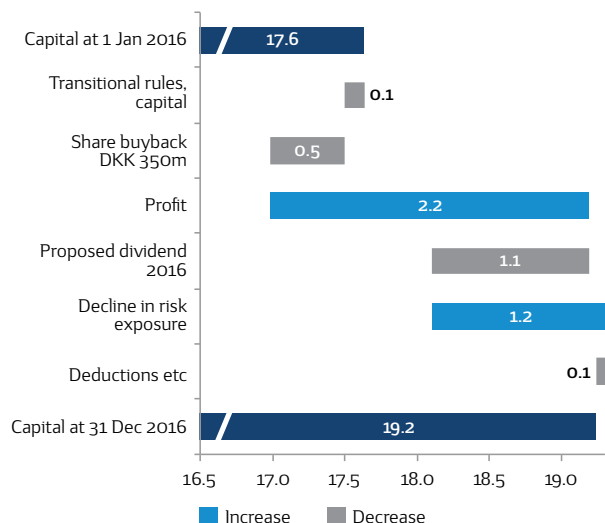
### Solvency

Group – year-end (DKKm)	2016	2015
Risk-weighted assets	63,607	67,955
Common Equity Tier 1 capital	10,213	9,852
Tier 1 capital	11,044	10,825
Total capital	12,242	11,984
Common Equity Tier 1 capital ratio	16.1	14.5
Tier 1 capital ratio	17.4	15.9
Capital ratio	19.2	17.6

At year-end 2016 the Common Equity Tier 1 capital ratio and the capital ratio stand at 16.1% and 19.2%, respectively, compared to 14.5% and 17.6% at year-end 2015.

# Performance in 2016

## Capital ratio in 2016



In 2016 the capital ratio was positively affected by profit for the year etc (+2.2 percentage points) and the decline in risk exposure (+1.2 percentage points) and negatively affected by the proposed dividend (-1.1 percentage points), the completed share buyback programme (-0.5 percentage points) and other elements (-0.2 percentage points).

At 31 December 2016 the individual solvency need represented 10.2% (2015: 9.7%).

### Solvency of the parent

At year-end 2016 the Common Equity Tier 1 capital ratio and the capital ratio stand at 15.6% and 18.7%, respectively.

### Advanced IRB – corporate exposures

Today Sydbank applies the advanced IRB approach to calculate the capital requirement as regards retail exposures and the foundation IRB approach to calculate the capital requirement as regards corporate exposures.

At year-end 2016 a project was launched with the purpose of gaining approval to apply the advanced IRB approach to calculate the capital requirement as regards corporate exposures. The objective is to gain approval in 2019.

### Capital policy

The Group's capital policy consistently supports the Group's strategy and at the same time takes into account Sydbank's status as a SIFI as well as full implementation of capital regulations. The Group's targets are a Common Equity Tier 1 capital ratio of around 13.5% and a capital ratio of around 17.0%. The capital targets have been set to ensure that the Group complies with all capital requirements, including buffer requirements, once these have been fully implemented.

Reference is made to Capital Management on page 22.

### Dividend policy

The Group's dividend policy must contribute to creating long-term shareholder value. The objective is to distribute 30-50% of profit for the year after tax while taking into account growth plans and capital policy. Distribution will be effected via dividends and/or share buybacks.

### Interest rate risk etc

The Group's interest rate risk represents DKK 177m at 31 December 2016 (2015: DKK 307m). As a result the Group will record a loss from an interest rate increase.

The Group's exchange rate risk continues to be very low and its equity risk modest as regards the trading portfolio.

### Funding and liquidity

The Group's liquidity measured under the 10% statutory requirement constitutes 28.6% at year-end 2016.

As a SIFI in Denmark Sydbank must fully meet the new liquidity coverage ratio (LCR). The Group's LCR constituted 166% at 31 December 2016 (2015: 144%).

The Group has met the LCR requirement of 100% throughout the year and as seen above its excess cover is significant at 31 December 2016.

### Joint funding

The Bank's agreement on joint funding with Totalkredit was changed effective as of 1 January 2017. The agreement was changed from an offsetting model according to which the Bank covers losses as regards the entire loan to a guarantee model according to which the Bank provides a guarantee for the part of the loan in the LTV range of 60-80%. The Bank no longer has a credit risk as regards the part of the loan in the LTV range of 0-60%.

As a consequence of the amendment of the agreement, funded

loans will not be recognised in the Bank's balance sheet in future.

Funded mortgage-like loans amount to DKK 5.3bn at 31 December 2016. Had the agreement been effective as of 31 December 2016, bank loans and advances would have been recognised at DKK 5.3bn less and the Bank would instead have provided a guarantee for DKK 1.2bn as regards the part of the loan in the LTV range of 60-80%.

#### Accounting estimates

Estimates in relation to the measurement of assets and liabilities are based on assumptions considered reasonable by management but which by their nature are uncertain. They may prove to be incomplete or inaccurate as a result of developments differing from projections in the external environment in which the Group operates or in other respects relating to clients or business relations.

#### Rating

Moody's most recent rating of Sydbank:

- Outlook: Stable
- Long-term deposit: A3
- Senior unsecured: Baa1
- Short-term deposit: P-2.

#### Shareholders

In 2016 the Sydbank share yielded a return of minus 1% (2015: 17%) as a result of the share price decline during the year. In addition a dividend of DKK 7.94 was distributed in accordance with the dividend policy as well as an additional dividend of DKK 3.18. Consequently the total return in 2016 represented 4% (2015: 20%).

The Board of Directors will propose to the AGM that 50% of the Group's profit after tax, equal to a dividend of DKK 10.46 per share, be distributed and that DKK 10m be donated to the sponsorship fund Sydbank Fonden.

#### Supervisory Diamond

The Supervisory Diamond sets up a number of benchmarks to indicate banking activities that initially should be regarded as involving a higher risk. Any breach of the Supervisory Diamond is subject to reactions by the Danish FSA.

The calculations at the end of 2016 are shown below:

#### Supervisory Diamond benchmarks

Group	2016	2015
Sum of large exposures < 125%	0	0
Lending growth < 20% annually	4	9
Commercial property exposure < 25%	9	8
Funding ratio < 1	0.80	0.82
Excess cover relative to statutory liquidity requirements > 50%	186	167

At 31 December 2016 the Group as well as the parent comply with all the benchmarks of the Supervisory Diamond.

#### Leverage ratio

The CRR/CRD IV rules require credit institutions to calculate, report, monitor and disclose their leverage ratio, which is defined as Tier 1 capital as a percentage of total exposure.

The Group's leverage ratio stood at 7.0% at 31 December 2016 (2015: 7.0%) taking into account the transitional rules.

Assuming fully loaded Tier 1 capital under CRR/CRD IV without any refinancing of non-eligible Additional Tier 1 capital, the leverage ratio would be 6.5% (2015: 6.4%).

#### SIFI

Sydbank has been designated as a SIFI in Denmark and in 2016 there is an additional buffer requirement of 0.4% as regards Common Equity Tier 1 capital. The requirement will gradually rise to 1% in 2019. The intention is to bring Danish SIFI capital requirements on a par with the requirements in other comparable European countries. The level of the Danish SIFI capital requirements will be finally determined in 2017 at the latest on the basis of a comparison with the final requirements in the other countries.

#### IFRS 9

With IFRS 9, coming into force on 1 January 2018, a new impairment model will be implemented according to which impairment charges must be recognised for all the Bank's loans and advances and guarantees on the basis of expected losses. Under the existing rules impairment charges are recognised only when there is objective evidence of impairment.

Under IFRS 9 exposures are divided into three groups for calculating impairment and classified into different stages (1, 2 or 3), depending on the risk of credit loss.

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# Performance in 2016

The staging assessment and the calculation of expected loss will to a large extent be based on the Bank's existing rating models and credit management. Systems to calculate impairment charges in accordance with IFRS 9 are being developed and are adjusted in line with the Danish FSA's statements as regards the more detailed interpretation of the rules. Overall the change in the method to calculate credit loss is expected to trigger an increase in the Group's impairment charges. A more precise quantification is expected in 1H 2017.

In general the projected increase in the Group's impairment charges will reduce the Group's shareholders' equity and will consequently have a corresponding negative impact on capital resources. To counter an unintended impact on capital resources and hence banks' possibilities of supporting lending, the European Commission has proposed a 5-year transitional arrangement so that an adverse impact from the new impairment model will not have full effect on capital resources until a period of 5 years has passed.

## Bank Recovery and Resolution Directive

The directive, including the bail-in provisions, was implemented in Danish law on 1 June 2015. According to legislation each credit institution must meet a minimum requirement for eligible liabilities (MREL). The Danish FSA has been authorised to set the requirement for Sydbank.

Uncertainty continues to surround the minimum requirement as well as the deadline for its implementation. The final minimum requirement may affect the Group's capital and funding structure.

The general resolution principle for SIFIs is that it should be possible to restructure them and send them back to the market with adequate capitalisation to ensure market confidence. In accordance with this principle the MREL for SIFIs is expected to be set at two times the total capital requirement. It is expected that the MREL will have to be met with convertible instruments ("contractual bail-in").

Over the next few months the Danish FSA will have discussions with the industry on phase-in and the specific requirements regarding capital that can be used to comply with the MREL. The discussions will take into consideration international developments in the area.

The Danish FSA expects to approve resolution plans and set individual MRELS for SIFIs before the end of 2017.

Moreover a resolution fund is under establishment. Credit institutions must make contributions to the fund according to their relative size and risk in Denmark. The resolution fund must be established and have assets at its disposal equal to at least 1% of the covered deposits of all Danish credit institutions by 31 December 2024.

The Group's contribution to the resolution fund for 2016 represents DKK 18m.

## Basel IV

The Basel Committee on Banking Supervision (BCBS) is conducting a review of the requirements for calculating the risk exposure amount (REA). This review is also known as Basel IV. Among other things, Basel IV proposes to constrain the use of internal models and introduce a permanent floor for the risk exposure amount. The new requirements are expected to be released in mid-2017 after which the EU implementation process will begin. The Group is following developments closely but the extent of the final regulatory changes and the timeline for implementation are currently unknown.

## Outlook for 2017

Limited growth is projected for the Danish economy in 2017.

Based on the level of interest rates at the beginning of 2017, core income is expected to be on a par with the core income generated in 2016.

Trading income is projected to remain unchanged relative to income in 2016 but is dependent on financial market developments.

As a consequence of general pay rises for the financial sector and a payroll tax increase of 0.5%, costs (core earnings) are expected to rise slightly despite the measures implemented.

Impairment charges for 2017 are forecast to be on a par with the impairment charges recorded for 2016. The uncertainty surrounding price developments in the agricultural sector may however affect impairment charges.

As a result of intensified digitization of the Bank as well as the establishment of a new mortgage platform non-recurring costs are expected to represent around DKK 75m.



# Capital Management

The Group's capital management ensures efficient deployment of capital relative to the Group's overall capital targets. The Group's risk profile is determined on the basis of the capital targets which ensure first and foremost that there is adequate capital to meet the Group's growth expectations and cover fluctuations in the risks assumed by the Group.

The Group applies internal ratings based approaches to manage the credit risk of the Group's corporate and retail client portfolios. The Group applies the advanced IRB approach as regards retail clients and the foundation IRB approach as regards corporate clients to determine the Group's capital requirements.

The Group applies the Standardised Approach to credit risk in relation to exposures to governments and credit institutions.

Further details, also concerning risk-weighted assets (RWA), capital information and ratios as regards capital, are found in note 3.

The Group's capital management focuses on four capital elements: minimum capital, adequate total capital, capital requirements including buffers and total capital.

## Capital and solvency and capital requirements

% of risk exposure amount	31 Dec 2016	Fully loaded*
<b>Capital and solvency</b>		
Common Equity Tier 1 capital ratio	16.1	16.1
Capital ratio	19.2	18.5
<b>Capital requirements (incl buffers)**</b>		
Total capital requirement	11.2	13.7
CET1 capital requirement	6.7	9.2
- of which countercyclical capital buffer	0.0	0.0
- of which capital conservation buffer	0.6	2.5
- of which SIFI buffer	0.4	1.0
<b>Excess capital</b>		
Common Equity Tier 1 capital	9.4	6.9
Total capital	8.0	4.8

\* Based on fully loaded CRR/CRD IV rules and requirements.

\*\* The total capital requirement consists of an individual solvency need and a combined buffer requirement. The fully loaded countercyclical capital buffer is based on the national buffer rate as at 31 December 2016.

Minimum capital represents the necessary capital in compliance with CRR and adequate total capital is the Group's determination of the capital sufficient to protect depositors against loss under the prevailing economic conditions. The solvency need is defined as adequate total capital in percentage terms of risk-weighted assets.

The capital requirement including buffers is based on the solvency need to which a combined buffer requirement is added. The combined buffer requirement for the Group constitutes 1.0% at 31 December 2016. When fully loaded the combined buffer requirement will represent 3.5% bringing the fully loaded CET1 capital ratio requirement to 9.2%.

The committees in the Group's risk organisation report directly to the Group Executive Management. The committees identify, monitor and assess risks within the individual risk areas and ensure that models and principles are formulated to calculate risks. The committees ensure that the Bank's business units proactively carry out their operations and analyse identified risks. The Group's Chief Risk Officer is a member of all committees, see Risk Management on page 100.

A risk assessment is carried out annually to determine the Group's risk profile. The Board of Directors considers the assessment and determines the adequate total capital and the individual solvency need in continuation of this assessment.

The adequate total capital is determined on the basis of the Danish FSA approach (8+). A proposal for the determination of the adequate total capital is prepared by Risk and is presented to the Group Executive Management. The Board of Directors discusses and determines the adequate total capital on the basis of this proposal.

The proposal is based on the capital adequacy rules (Pillar I) with add-ons for any risks deemed not to be sufficiently covered under Pillar I. At year-end 2016 add-ons were allocated in relation to credit risk, market risk and operational risk.

The models used to calculate the Pillar I capital requirement are described in detail in note 3.

The adequate total capital/solvency need can be broken down as follows:

#### Adequate total capital/solvency need

	DKKm	% of RWA
Credit risk	4,253	6.7
Market risk	850	1.4
Operational risk	892	1.4
Other exposures	466	0.7
<b>Adequate total capital/solvency need</b>	<b>6,461</b>	<b>10.2</b>

Other exposures include property, plant and equipment and the Group's equity investments.

Total capital is the actual capital that the Group has at its disposal.

Based on the adequate total capital the Group's capital structure can be specified as follows at 31 December 2016:

#### Capital structure

	DKKm	% of RWA
Adequate total capital/solvency need	6,461	10.2
Combined buffer requirement	652	1.0
Capital incl combined buffer requirement	7,113	11.2
Excess capital	5,129	8.0
<b>Total capital</b>	<b>12,242</b>	<b>19.2</b>

Stress testing is another important element in determining the adequate total capital.

The object of stress testing is to assess the impact of adverse events on capital needed and income. Stress test calculations show the impact for the coming years in given economic scenarios.

At 31 December 2016 the Group has based its stress test calculations on the following macroeconomic scenarios:

**Base case scenario** which reflects the Group's forecast of developments in the economy.

**Mild recession** which reflects deteriorated economic conditions compared with the base case scenario. Annualised GDP is expected to develop positively in 2017 and 2018. Unemployment will remain at its current level in 2017 and 2018.

**Global crisis** which reflects that the Danish economy will be hit by two blows: a domestic blow where confidence among Danish consumers and businesses will weaken significantly and a foreign blow where the international economy will be hit by a new cyclical downturn. This scenario resembles a very deep recession but in terms of GDP it is not quite as severe as in the period 2008-2009. Unemployment will increase substantially. GDP developments will be negative in 2017 and 2018 and house prices will drop sharply during the same period.

**Lending freeze** which reflects a scenario resembling the global crisis scenario. However Danish households and consumers will be more reluctant to borrow money. This can be construed as a more severe domestic blow to the Danish economy. The recession will be slightly deeper than in the global crisis scenario.

**Deflation** which reflects that inflation will continue to decrease in Denmark and the euro area leading to deflation where the overall level of prices will drop. Compared with the global crisis scenario, Denmark will see more significant declines in prices and lending.

**Interest rate increase** which reflects a steep rise in oil prices. In the light of sharply rising inflation the central banks in USA and the euro area will hike interest rates considerably. Danish economic growth will come to a standstill, house prices will drop, unemployment will rise slightly and prices and lending will decline.

**Debt crisis** which could reflect Greece abandoning the euro, prompting renewed uncertainty as regards other debt-ridden euro area countries. Another scenario could be the bank crisis or the political instability in Italy having a severe adverse impact on the Italian economy. Both scenarios involve a setback for Europe's economy and investors fleeing from debt-ridden countries. Danish economic growth will be slightly negative and unemployment will be higher than in the mild recession scenario. At the same time Denmark, via its status as a safe haven, will attract foreign capital, which will push interest rates lower than in the base case scenario.

The scenarios and their relevance are subject to ongoing assessment and the scenarios are approved by management as the basis for further stress test calculations. The impacts of the scenarios are included in the assessment of the adequate total capital. The stress tests conducted show that the Group is adequately capitalised.

Throughout 2016 the Group fully complied with external as well as internal capital requirements.

# Investor Relations

To support its strategic goals the Group ensures that its stakeholders receive accurate and complete information by targeting its communication to investors according to best practice and by maintaining a high degree of professionalism.

The Group strengthens and expands relations with investors and analysts by conducting roadshows when its financial statements are published.

In addition management interacts with analysts, shareholders and potential investors at a number of seminars and conferences where current issues concerning Sydbank are presented and discussed.

In 2016 Sydbank held approximately 150 meetings with investors in Western Europe and USA.

## The Sydbank share

The Sydbank share is listed on Nasdaq Copenhagen and forms part of the OMX Copenhagen Large Cap index.

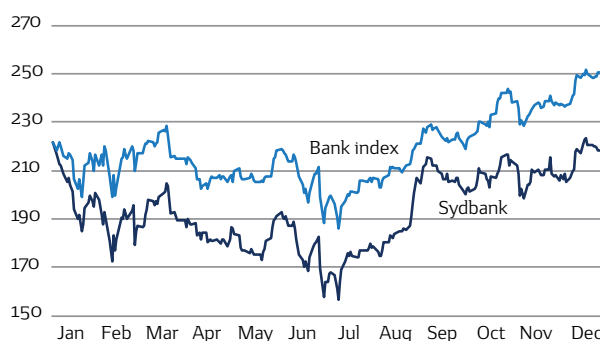
The Sydbank share dropped from 221.8 at year-end 2015 to 219.2 at year-end 2016, equal to a decline of 1%. Adjusted for dividend distributed in 2016 of DKK 11.12 per share, return to shareholders represented 4%. By comparison the bank index rose by 13%.

The Sydbank share	2016	2015
Share capital (DKKm)	722	742
Total market capitalisation at year-end (DKKm)	15,835	16,469
Share price at year-end	219.20	221.80
EPS Basic (DKK)	20.91	15.83
Dividend per share (DKK)	10.46	11.12
Book value per share (DKK)	169.16	160.19
Share price/book value per share	1.30	1.38

At the end of 2016 the Sydbank share was covered by eight analysts.

The average daily turnover of the Sydbank share was DKK 35m in 2016 compared with DKK 55m in 2015. The share was the 24th most traded share on Nasdaq Copenhagen.

## Share price developments 2016



1 January 2016 = index 221.8, ie Sydbank's share price

## Distribution policy

Sydbank's overall financial goal is to provide its shareholders with a competitive return by way of price increases and dividends.

The Group's dividend policy must contribute to creating long-term shareholder value. The objective is to distribute 30-50% of profit for the year after tax while taking into account growth plans and capital policy. Distribution will be effected via dividends and/or share buybacks.

In 2016 Sydbank distributed the highest dividend in the Bank's history. The dividend comprised a dividend of 50%, of the Bank's dividend policy, as well as an additional dividend of 20%, bringing the total payout ratio to 70%, equal to DKK 11.12 per share.

In continuation of the historically high dividend distribution in 2016 Sydbank has acquired 1,879,025 own shares totalling DKK 350m. The share buyback was conducted as part of the adjustment to the Group's capital targets.

The Group's targets are a Common Equity Tier 1 capital ratio of around 13.5% and a capital ratio of around 17.0%.

The Board of Directors will propose to the AGM that 50% of the Group's profit after tax, equal to a dividend of DKK 10.46 per share, be distributed and that DKK 10m be donated to the sponsorship fund Sydbank Fonden.

On the basis of improved income and a strong capital base a new share buyback programme of DKK 664m, in addition to the cash dividend, will be launched with expected implementation in the period from early March to end-2017. Consequently a total of DKK 1,400m, equal to 95% of profit for the year after tax, will be distributed.



# Mission Statement and Business Goals

Sydbank is one of Denmark's largest banks. As an advisory and service undertaking Sydbank's primary objective is to meet the financial requirements of its clients. Sydbank achieves this objective by striving to be among the absolute top performers in Denmark in terms of operating a bank and providing advisory services to clients based on their unique situation. The Bank uses business partners for a wide variety of financial services, for instance mortgage credit and insurance.

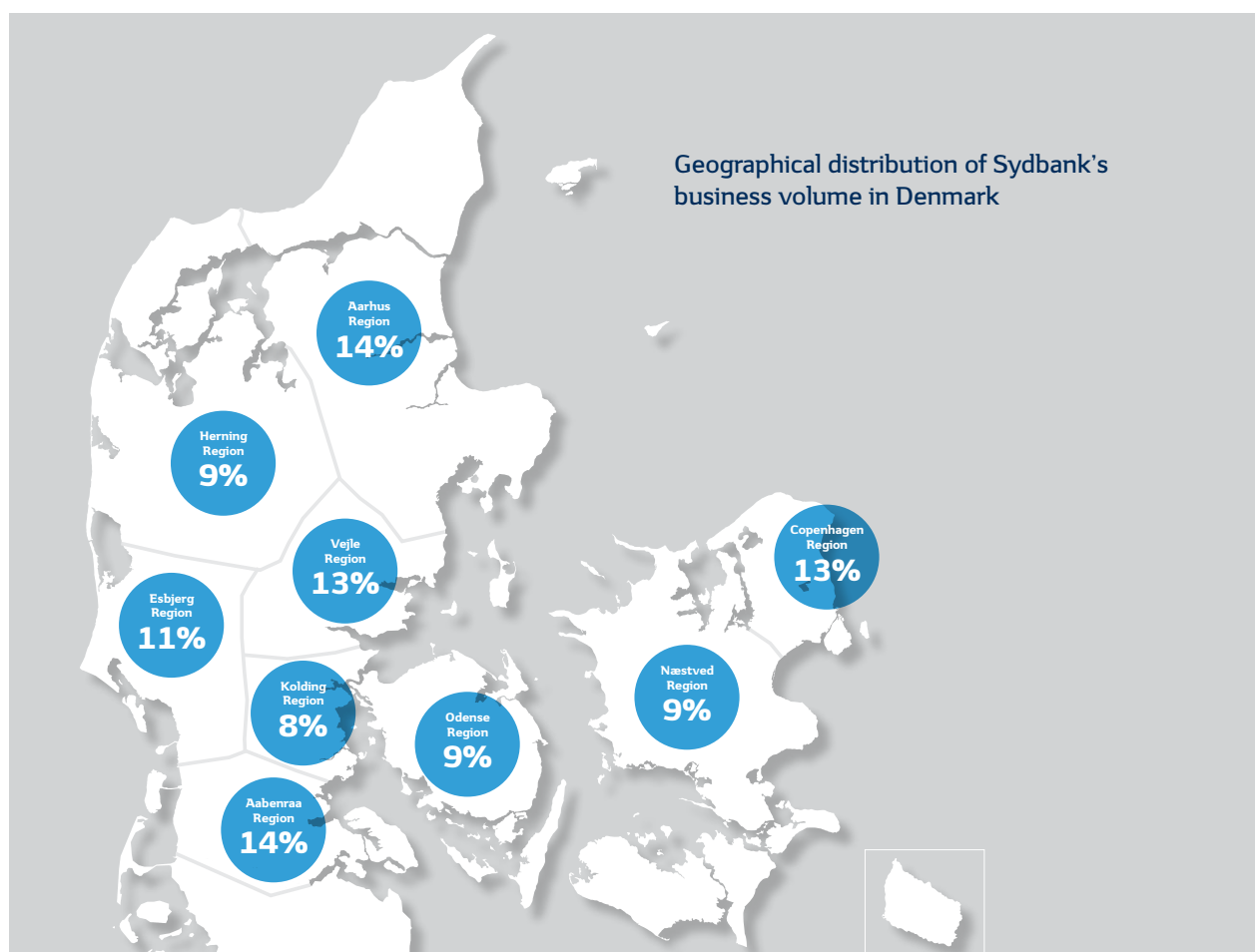
Sydbank is a strong, independent bank and the fourth largest in Denmark today. As a nationwide bank Sydbank has a significant presence in all parts of Denmark.

Sydbank's business volume is evenly distributed across nine geographical regions which form the basis of the direct advisory services to the Bank's clients. The total business volume consists of loans and advances, deposits, guarantees and custody accounts. Depending on client segment and type of business, Sydbank has a market share of between 6 and 12%. The Bank has its largest market share within the SME segment.

Moreover Sydbank has three branches in Northern Germany and together they constitute the Bank's 10th geographical region.

## Sydbank's business model

- Sydbank is a bank operating on its own terms.
- Sydbank is a competent and value-creating advisory bank.
- Sydbank is a relationship bank and professional relationships are the basis for creating, maintaining and building on long-term customer relationships.
- We strive for simplicity in our work.



# Mission Statement and Business Goals

## Values and attitudes

Sydbank's cooperation with its clients and other stakeholders is based on a number of strong values and business principles. Sydbank's values are expressed in the statement: "Excellence and relationships create value" as well as the Bank's stakeholder policy.

### Sydbank's stakeholder policy

- Sydbank will act as an open and credible organisation proactively seeking dialogue with its stakeholders and the surrounding community.
- Sydbank will treat its stakeholders responsibly, properly and respectfully.
- Sydbank will base its decisions on dialogue with significant stakeholders.
- Sydbank will communicate based on facts, in due time, comprehensibly and precisely with relevant stakeholders.

Sydbank is convinced that the combination of excellent employees and good relationships creates value for clients – and the Bank. Moreover Sydbank believes that a strong relationship with all stakeholders is an important business advantage in a highly competitive and fast-changing financial market. At Sydbank we have a simple organisation to ensure high accessibility and easy access to decisions so we can act quickly.

## Blue growth

Blue growth is Sydbank's strategic guide in the three-year strategy period from 2016 to 2018. The objective of the strategic plan is to ensure that Sydbank continues its current positive development.

Blue growth – characteristics:

- Independent because Sydbank's business model is valued by customers
- Articulation of Sydbank's growth targets and means. We will grow through long-term, close relationships where we see acquisitions as an opportunity but not as a necessity
- Ambitious because with Blue growth Sydbank must rank in the top 3 among the 6 largest banks in terms of customer satisfaction and return on shareholders' equity
- Persistent because with Blue growth Sydbank is persistent in its payment of dividends
- High-quality and profitable banking – pure and simple.

Blue growth – financial targets:

- A return on shareholders' equity of a minimum of 12% after tax or a top 3 ranking among the 6 largest banks
- Top 3 ranking among the 6 largest banks in Denmark in terms of customer satisfaction.

## Blue growth Targets

Return on  
shareholders' equity



Customer  
satisfaction



\* or top 3 ranking among the 6 largest banks.

## Client policy

According to Sydbank's client policy each client should experience becoming or being a client of Sydbank as something special irrespective of whether the client is a retail client or a corporate client.

Sydbank aims to be seen as a flexible bank putting itself in the client's place. In its contact with clients Sydbank wishes to be known as a bank that is close to its clients and through this closeness build long-term relationships and provide advisory services that create value for the client and the Bank.

Sydbank seeks to ensure high accessibility and gives clients the possibility of contacting the Bank whenever and however it is convenient for them.

## Customer satisfaction

Sydbank uses research agencies to measure customer satisfaction among corporate clients and retail clients, respectively. The annual Aalund Business Research poll surveys customer satisfaction among corporate clients and EPSI surveys retail clients' satisfaction with their bank.

Customer satisfaction among the Bank's corporate clients continues to be in the top 3 of the 6 largest banks in Denmark, which is in line with the Bank's strategic target.

Among the Bank's retail clients Sydbank dropped from the top 3 and ended as number 5 among the 6 largest banks. The reason for this is a number of changes in the service concepts particularly for clients with a limited business volume. In 2017 Sydbank will focus its efforts on improving customer satisfaction among the Bank's clients.

#### **Customer service**

Sydbank serves its clients on the basis of their requirements and offers digital self-service solutions that enable clients to carry out everyday banking transactions in an easy and flexible manner. Clients increasingly see the bank not only as a place you go but something you do via your mobile phone, tablet or computer when on the go or from the comfort of home. Sydbank provides the services in demand by clients and sees technology as a way to bring the Bank even closer to its clients. At Sydbank we use technology to personalise our services.

The contact between clients and Sydbank takes place via the branches in the Bank's nine Danish regions, the branches in Germany and the expert functions at the head office – but also increasingly via Sydbank NetBank, Sydbank MobilBank and Sydbank Direct – over the phone, email, Facebook and chat.

Providing full service to all clients, the Danish regions are organised in Corporate, Private Banking and Retail sections and service the Bank's branches. In addition Sydbank has a separate area dedicated to agricultural clients. At the end of 2016 Sydbank had 64 branches in Denmark and three branches in Germany. The number of branches is adjusted on an ongoing basis according to clients' use of them.

#### **Business areas**

##### **Retail**

Sydbank aims to be perceived by retail clients as a competitive and flexible advisory bank which through excellence is able to build and maintain strong, long-term relationships. That is why the Bank launched Sydbank Favorit, a loyalty programme for retail clients, in 2015.

Sydbank Favorit lets clients choose the benefits that best suit their total financial relationship with the Bank. The more business a client has with Sydbank, the greater the number of benefits clients can choose. In addition to the optional benefits the client will have a number of fixed benefits, eg a discount on general insurance and a loyalty discount that is a special reward for the client's years as a client with Sydbank.

The purpose of the loyalty programme is to strengthen Sydbank's competitiveness and customer loyalty.

Sydbank operates its business focusing on its own services and products. In addition the Bank cooperates with a number of subsuppliers to provide further financial services and products. The primary mortgage credit partners are Totalkredit, Nykredit and DLR Kredit and Sydbank's life insurance partners are Letpension and PFA. Sydbank's non-life insurance partner is Topdanmark.

##### **Private Banking**

Private Banking at Sydbank strives to provide qualified advisory services through the entire life cycle of Private Banking clients. As a result the Bank focuses on having a long-term relationship with each client.

Within the Private Banking area Sydbank has a physical Private Banking centre in each of the Bank's nine regions.

Advisory services are provided by dedicated Private Bankers. These advisers are assisted by a team of experts tailored to the specific requirements of the individual client. The team at the client's disposal provides advisory services on eg investments, wealth management and current financial issues. If further requirements arise, special experts from the Bank's central functions are called upon.

##### **Investment**

The investment area is an integrated part of the Private Banking organisation.

For many years Sydbank has targeted the investment area and the Bank primarily focuses on providing personal and individual advisory services to its clients.

##### **Corporate**

Sydbank aims to be the preferred business partner for medium-sized and large enterprises and prioritises building and maintaining peer relationships with all clients.

Consequently all corporate clients receive advisory services from a personal adviser who knows the individual enterprise and its situation. The personal adviser is responsible for bringing the Bank's many skilled experts into play in the development of and the collaboration with the enterprise. We always strive to be one of the enterprise's preferred strategic business partners through our advisory services and through acting as a sparring partner.

# Mission Statement and Business Goals

In 2016 the Bank improved its customer service concepts for the corporate segment.

Sydbank is a full-scale corporate bank offering all financing solutions tailored to the requirements of the individual enterprise.

Customer satisfaction is the key to continued growth and the way to achieve our ambition of being Denmark's best bank for medium-sized and large enterprises.

## International banking services

Sydbank's corporate clients have access to efficient international commercial banking services. Sydbank offers payment services and cash management solutions virtually worldwide. This is effected through the Bank's branches in Germany and in close cooperation with Nordic banks as well as the Connector banks.

## Asset management

Sydbank offers advice and asset management to for instance investment funds, pension pools, foundations and institutional clients.

In addition the Bank offers asset management to wealthy clients through individual portfolio management agreements where clients are assigned two personal portfolio managers responsible for the client's portfolio. Moreover the Bank offers different investment management models to its different client segments. For instance Sydinvest Portefølje is offered to Private Banking clients and Bankvalg, PengePlan® and Værdipapirfonden Sydinvest are offered to retail clients depending on their tax environment, financial circumstances and savings level.

In terms of investment funds Sydbank cooperates with a number of subsuppliers such as Sydinvest, BankInvest, Valueinvest, Sparinvest and Maj Invest to be able to offer competitive products in connection with advisory services to clients and in portfolios.

Asset Management is also responsible for the Bank's macro, equity and fixed income research.

## Asset management

DKKbn	2016	2015
Pooled pension plans	14	12
PengePlan®	10	10
PM mandates	11	13
Management agreements	4	4
Investment funds and capital funds	50	45
<b>Total</b>	<b>89</b>	<b>84</b>

## Custody account volume

DKKbn	2016	2015
Retail and corporate clients	102	108
Pooled pension plans	14	12
Financial institutions	4	5
Investment funds and capital funds	48	44
<b>Total</b>	<b>168</b>	<b>169</b>

## Custody account volume - retail and corporate clients

DKKbn	2016	2015
Danish bonds	10	11
Foreign bonds	4	8
Danish shares	33	35
Foreign shares	7	6
Investment funds and capital funds	48	48
<b>Total</b>	<b>102</b>	<b>108</b>

Overall, asset management is a growth area. Approximately 30% of Sydbank's assets under management concern emerging market shares and bonds. Emerging markets is an area in which the Bank has built considerable experience and expertise over the years generating good investment returns. This has resulted in the management of a number of institutional EM bond mandates from Danish and foreign pension companies.

In 2016 assets under management increased by 6% to DKK 89bn compared with DKK 84bn in 2015. This development reflects price gains as well as decent net sales of pooled plans and investment fund products.

### Sydbank Markets

Sydbank Markets offers advice and quotes prices as regards bonds, shares and foreign exchange as well as undertakes market-making obligations. Sydbank Markets services institutional clients, central banks, asset managers, foreign clients, major clients, local banks as well as Sydbank's decentralised investment centres and departments.

### Agriculture

Sydbank Agriculture provides advisory services to Sydbank clients who operate full-time agricultural holdings. Clients of Sydbank Agriculture receive financial advisory services targeted to the special requirements and circumstances of the agricultural industry. Each client is assigned an agricultural adviser who offers banking advice and also follows the agricultural industry closely and stays updated on the different farming branches and the sector in general.

Sydbank's advisory services to full-time agricultural holdings are pooled in two agricultural centres in Røddekro and Billund. Moreover the Bank has agricultural advisers at Sydbank's branches in Aalborg, Svendborg and Slagelse.

During the second half of 2016 the Sydbank Group offered selected agricultural clients the option to convert part of their bank debt into subordinated loan capital in a bid to create better prospects and encourage them to continue to work towards increasing earnings.

The selected farms are characterised by for instance:

- negative equity
- high efficiency.

After conversion of the bank debt the assessment should be that the farm in question offers perspectives from the point of view of the farmer as well as Sydbank. After the conversion OEI (objective evidence of impairment) will cease to exist for the agricultural exposures concerned.

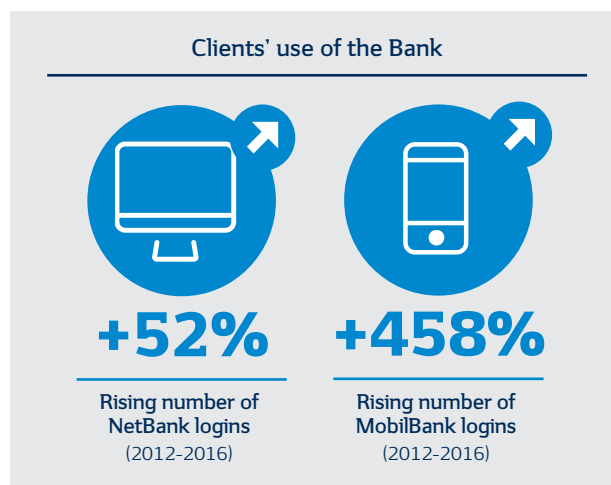
### Sydbank in Germany

Sydbank in Germany targets Danish corporate clients who trade with Germany as well as German corporate clients and Private Banking clients. The Bank's areas of expertise such as Private Banking as well as financial and wealth advisory services are also available at Sydbank in Germany. Furthermore Sydbank's branch in Flensburg services retail clients, including clients who commute across the Danish-German border.

Sydbank's branches in Germany are situated in Flensburg, Kiel and Hamburg.

### Online and digital solutions

Sydbank NetBank and Sydbank MobilBank enable clients to pay bills, trade securities and much more via their computers, tablets and smartphones. The use of NetBank and MobilBank has increased overall and at year-end 2016 users numbered 206,000 and 160,000, respectively.



In autumn 2016 Sydbank became part of the MobilePay cooperation. At the same time it was decided to dissolve the company behind Swipp. Swipp will be phased out during 2017 and consequently Sydbank's clients – retail and corporate – will be offered MobilePay as a mobile payment solution in 2017.

Given the large number of Danish banks now backing this solution, there is a strong basis for extending the reach of MobilePay and the account-to-account infrastructure makes it possible to do this in the most cost-efficient way.

## Mission Statement and Business Goals

Sydbank offers MobilBank Erhverv and Online Banking for corporate clients, both of which are fully integrated with clients' ERP systems and support a wide range of national and international electronic cash management solutions. The system includes a Trade Finance Online module.

Sydbank had 149 ATMs at year-end 2016. They are located in connection with the Bank's branches as well as in selected places, for instance shopping centres. The vast majority of machines are open 22 hours every day of the year. It is possible to make cash deposits at 84 ATMs around the country. It is possible to buy EUR in all the Bank's ATMs. All Sydbank's branches have coin counters and foreign exchange can be ordered for delivery in all cashless branches.

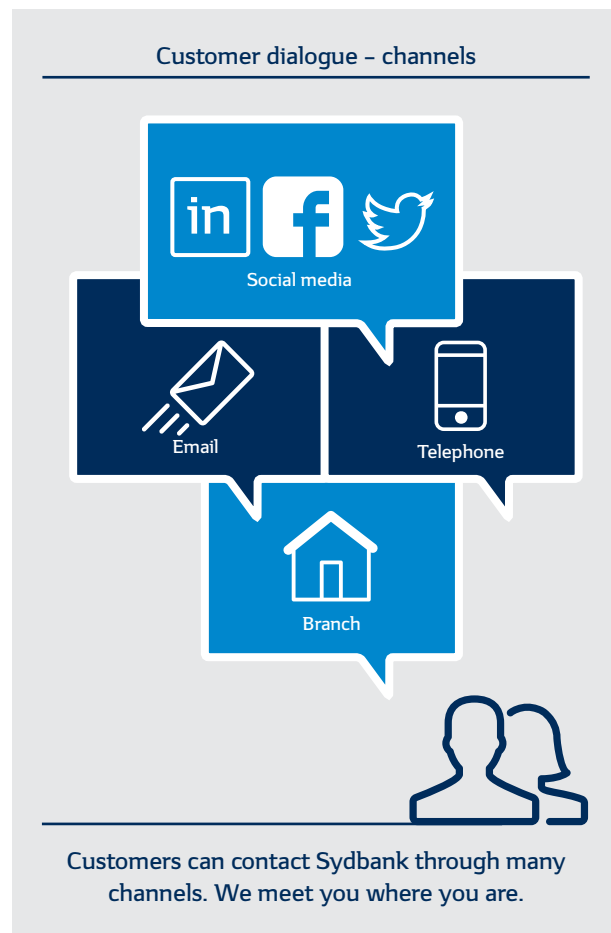
### Sydbank Direct

Sydbank Direct is the Bank's online advisory and service offering using different channels. This enables customers to contact the Bank when and how it suits them best.

Sydbank Direct is physically located in Slagelse, Vejle and Aabenraa and staffed by employees with a background in banking. Sydbank Direct is open all days between 8am and 8pm but is closed on public holidays, 24 and 31 December.

Clients are also able to start a dialogue with the Bank via Facebook. At year-end 2016 Sydbank had approximately 15,000 followers on Facebook, which is an increase of around 10,000 compared with 2015. In 2016 we received 4,268 comments from clients on Facebook and our average response time was 1 hour and 33 minutes. Sydbank uses its Facebook profile to communicate news, operational disruptions and in general to engage proactively with clients who choose this channel to contact the Bank.

As a new initiative Sydbank uses Trustpilot as an extra indicator of customer satisfaction. All clients who have participated in a meeting with an adviser are prompted for a review of their experience. All clients have the possibility of sharing their experience and reading about other clients' experiences with the Bank. In 2016 we received 388 reviews. On a scale from 0 to 10 Sydbank has a score of 8.0 at the end of 2016.



### HR and staff

Sydbank considers excellent and dedicated employees as its most important asset. Excellent and dedicated employees are key to ensure the Bank's continued success and value creation for Sydbank's clients as well as the Bank itself. Also in 2016 Sydbank focused on skills development and further education of the Bank's employees.

In 2016 the Bank's management staff – in client-facing functions as well as in the central functions – participated in education activities to support Sydbank's overall goals. In addition to the continued focus on management development in 2016, Sydbank also had considerable focus on training as regards the Bank's advisers, including retail account managers, corporate account managers and Private Bankers.

At year-end 2016 Sydbank's full-time staff numbered 2,037 including Syd Fund Management A/S.

### Safety

Sydbank gives high priority to safety in its branches. The fact that a growing number of branches are cashierless and/or cashierless in response to the change in clients' needs increases safety. Furthermore all branches with cashier services are equipped with time locks and other robbery-prevention measures.

IT security is a high priority as clients are increasingly using IT-based platforms to do their banking and as virtually all the Bank's transactions involve the use of IT. Sydbank works to ensure that security goes hand in hand with user-friendliness as regards the Bank's IT-based platforms.

### IT

IT is an essential part of the Bank's business model. Like other banks Sydbank is in a transformation process from a traditional bank to a more digitized bank. Consequently the Bank's business model is adapted regularly to meet clients' increasing demand for self-service and advisory services outside the traditional branch.

The way clients use the Bank is changing these days, resulting in growing demands for flexibility and shorter delivery times. IT plays a crucial role in this process as clients do not only associate their experience of Sydbank with our advisers but increasingly interact with systems and tools such as NetBank and MobilBank. Sydbank's digital interaction with its clients takes place via a growing use of CRM systems helping to provide an overview as regards advisory services, sales and marketing so that the customer experience is optimised – in terms of self-service as well as accessibility.

Implemented projects focus on optimising processes at Sydbank for the benefit of the Bank's clients and employees. Sydbank sees technology as a means to bring the Bank closer to clients and to reduce complexity thus creating a simple and seamless customer experience.

Sydbank works closely with Bankdata on the development of new IT systems. Focus is on the digitization of processes, creating a better online customer experience and even better capital market systems. These strategic issues will be of great significance in 2017 and onward.

### National Banks in Denmark

Sydbank is a member of the industry association, National Banks in Denmark, together with Arbejdernes Landsbank, Nykredit Bank and Spar Nord Bank. The main object of the association is to strengthen members' position in relation to sector policy.

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# Corporate Governance

Sydbank backs and actively addresses the recommendations issued by the Committee on Corporate Governance.

As a SIFI the Group publishes the statutory corporate governance report on the Bank's website. The Board of Directors follows the comply-or-explain principle. The position of the Board of Directors as regards each recommendation appears from Sydbank's Corporate Governance Principles, which can be read at [sydbank.com](http://sydbank.com).

Moreover the Group has considered and supports the management code of conduct of the Danish Bankers Association. More information is available at [sydbank.com](http://sydbank.com).

Sydbank has a voting right limitation according to which no shareholder on his own behalf may cast a vote of more than 20,000 shares.

The Board of Directors consists of eight members elected by and from among the members of the Shareholders' Committee. Board members elected by the Shareholders' Committee are elected for a term of three years. Re-election is possible. If the number of board members is reduced to less than six, the Shareholders' Committee will add to the number of board members as soon as possible in order to increase the number of members to at least six.

According to the Bank's current Articles of Association a member of the Board of Directors must vacate office upon attaining the age of 70 no later than at the next annual general meeting. As a main rule the maximum term of office for board members is 12 years. The aim is that women will represent at least 25% of the shareholder-elected board members. Following the general meeting in 2016 Sydbank's Board of Directors consisted of eight shareholder-elected board members including one woman. Consequently the composition of the Board of Directors does not currently meet the target of 25%. The Nomination Committee and the Board of Directors will seek to ensure that new women board members can be recruited to fulfil the defined target.

At the upcoming annual general meeting the Board of Directors will submit a proposal to remove the age limit and to make the 12-year limit absolute.

Resolutions to amend the Articles of Association and resolutions to dissolve the Bank or to merge the Bank with other companies will only be adopted if at least two-thirds of the vot-

ing share capital is represented at the general meeting and the resolution is carried by two-thirds of votes cast and of the voting share capital represented at the general meeting.

If two-thirds of the voting share capital is not represented at the general meeting but the resolution has been carried by two-thirds of both the votes cast and of the voting share capital represented at the general meeting, the resolution can be adopted at a new general meeting by the majority of votes cast as prescribed above irrespective of the proportion of voting share capital represented.

Resolutions to amend the Articles of Association submitted by the Shareholders' Committee or the Board of Directors may be finally adopted at a single general meeting by two-thirds of both the votes cast and of the voting share capital represented at the general meeting.

The Board of Directors holds at least 11 ordinary meetings each year and carries out an annual self-evaluation where the work and results of the Board of Directors and its individual members are assessed. Based on the Bank's business model the evaluation involves determining the competences required in the work of the Board of Directors. In this connection the existing competences are assessed to ascertain whether additional competences are needed. The evaluation is carried out by the Bank's Nomination Committee and every third year external assistance is received. The conclusions of the Nomination Committee's discussions are presented to the Board of Directors. As part of the evaluation procedure, follow-up on the results of the self-evaluation is conducted by way of questionnaires etc.

Based on Sydbank's business model the conclusion of the evaluation of the Board of Directors for 2016 is that overall the Board of Directors has the competences required and in general the work of the Board of Directors is very satisfactory.

Other directorships held by the Board of Directors can be seen on pp 118-123.

## Share capital

The Board of Directors may authorise a share capital increase of up to DKK 72,240,199 in one or more issues. The authorisation applies until 1 March 2021. Increases in share capital pursuant to such authorisation may be effected without any pre-emption rights for the Bank's existing shareholders, if effected by an unrestricted public subscription at market price or by conversion of debt.



The general meeting has authorised the Board of Directors to allow the Bank to acquire own shares within a total nominal value of 10% of the Bank's share capital. At 31 December 2016 the Bank had acquired 6.2% of the Bank's share capital under the current authorisation.

Sydbank's Articles of Association are available at [sydbank.com](http://sydbank.com).

#### **Significant internal controls and risk management systems**

Sydbank's risk management and internal controls relating to financial reporting are designed for the purpose of preparing:

- management accounts which make it possible to measure and follow up on the Group's performance
- financial statements which give a true and fair view without material misstatement and which are in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional Danish disclosure requirements for annual reports of listed financial companies.

The Group Executive Management is responsible for maintaining effective internal controls and a risk management system in connection with financial reporting. The Group Executive Management has designed and implemented controls considered necessary and effective to counter the identified risks relating to financial reporting. The Group's internal controls and risk management systems are updated on an ongoing basis and are designed with a view to identifying and eliminating errors and omissions in the financial statements.

#### **Risk assessment**

The Board of Directors and the Group Executive Management regularly assess the risks relating to the Group, including those affecting financial reporting. A description of the most significant identified risks is given in the annual report in Note 2 Accounting estimates and judgements.

Procedures have been put into place to ensure that Sydbank at all times complies with relevant legislation and other regulations in connection with financial reporting. The Audit Committee is regularly informed of significant changes in legislation.

#### **Monitoring**

Analyses and control activities are conducted in connection with the preparation of the financial statements to ensure that financial reporting is in compliance with IFRS as described in Note 1 Accounting policies.

#### **Compliance**

Compliance is an independent function reporting directly to the

Bank's Group Executive Management. The function supervises and assesses whether the Bank's business units comply with legislation and internal rules. The objective is to minimise the Bank's compliance risks, for example the risk of financial losses, the loss of good standing or administrative sanctions as a result of non-compliance with rules.

The work is organised so that all the Bank's activities are assessed from a risk-based approach. For each control and assessment carried out by Compliance the result/conclusion is reported to the relevant business area managers who are responsible for correcting any errors or omissions identified, including adjusting inadequate systems and procedures. Compliance follows up on the implementation of appropriate measures. Moreover the function follows up on the controls and assessments carried out. The time horizon for this work depends on the risk identified.

In addition Compliance is responsible for the assessment of new products and services in terms of risk. This assessment is made in cooperation with the relevant business units in the Bank as well as the Bank's risk function. The assessment is taken into account by the Group Executive Management in its elaborations on how to launch a new product.

Compliance submits quarterly reports of its most significant activities to the Bank's Group Executive Management and the Board of Directors.

#### **Anti-money laundering**

Sydbank has a clear position on countering the risk of money laundering and terrorist financing. On the basis of a risk analysis a number of measures have been implemented to minimise the risk. These measures are described in a policy adopted by the Board of Directors. The policy serves as the basis of the Bank's procedures, routines and job descriptions.

An anti-money laundering officer has been appointed whose task is to ensure compliance with legislation and rules concerning anti-money laundering and terrorist financing. The anti-money laundering officer works closely together with the relevant customer-facing parts of the Bank and contributes to ensuring that all relevant employees have received training in the anti-money laundering rules.

In addition to the efforts to prevent money laundering and terrorist financing via the Bank, the Bank performs appropriate monitoring of transactions and reports to the relevant authorities as required.

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# Corporate Governance

## Risk organisation

Sydbank has a formal risk organisation comprising a number of risk committees and a Chief Risk Officer (CRO) reporting directly to the Bank's Group Executive Management. The CRO is responsible for prudent risk management within the Group and compliance with the requirements of the Danish executive order on management and control of banks etc. The risk committees are headed by a member of the Bank's Group Executive Management and the CRO is a permanent member. The risk committees identify, monitor and assess risks within the individual risk areas and ensure that models and principles are formulated to calculate risk. The committees ensure that the Bank's business units counter identified risks.

## Audit Committee

The Audit Committee reports to the Board of Directors and convenes as a minimum four times a year.

The Audit Committee reviews and monitors on an ongoing basis the adequacy of the Group's internal controls. Moreover the committee assesses significant risks in connection with accounting, auditing and security issues. The assessments are carried out when the Board of Directors, Internal Audit, the Audit Committee or independent auditors believe an issue deserves closer examination before it is brought before the Board of Directors.

Moreover the Audit Committee follows up on measures taken to rectify weaknesses in internal controls as well as to correct errors and omissions in the financial statements reported by independent auditors and Internal Audit and ensures that controls and procedures are implemented to counter these errors and omissions.

The Audit Committee supervises the financial reporting process including accounting policies and reviews significant risks and accounting estimates before the financial statements are presented to the Board of Directors.

As a result of an amendment to the Danish Approved Auditors and Audit Firms Act, the duties of the Audit Committee have been increased and now include extended reporting obligations to the Board of Directors, carrying out an assessment of the competences, independence and integrity of the external auditor and being independently responsible for the procedure for appointing an external auditor.

The Audit Committee convened seven times in 2016.

The Board of Directors has appointed Svend Erik Busk, General Manager, as the independent board member who possesses special competences. Svend Erik Busk's competences are based on 35 years of accounting experience, including 22 years as a partner at KPMG.

The committee consists of Svend Erik Busk (Chairman), General Manager, Torben Nielsen, former Central Bank Governor, Jacob Chr. Nielsen, General Manager, and Lars Mikkjelgaard-Jensen, Managing Director and Board Chairman.

Further information is available at [sydbank.dk/omsydbank/organisation/revisionsudvalg](http://sydbank.dk/omsydbank/organisation/revisionsudvalg) (in Danish only).

## Risk Committee

The Risk Committee reports to the Board of Directors and convenes as a minimum four times a year.

The Risk Committee must provide the Board of Directors with an overview of the Group's current risk scenario and prepare the Group's overall risk profile and risk strategy including the risks associated with the Group's business model.

Moreover the Risk Committee must evaluate the Group's internal procedure for risk identification and the correlation with risk reporting and the calculation of the Group's solvency need. The Risk Committee is regularly informed of the models and measurement methods used in the Group's capital management including trends in and expectations of regulatory requirements.

The Risk Committee ensures that the policies and guidelines of the Board of Directors as regards risk are implemented and function effectively in the Group.

The Group's CRO must assist the committee with information and attend its meetings with a view to discussing the Group's risk management.

The Risk Committee convened four times in 2016.

The committee consists of Torben Nielsen (Chairman), former Central Bank Governor, Peder Damgaard, General Manager and former Principal, Bo Normann Rasmussen, Managing Director, and Jarl Oxlund, Chairman of Sydbank Kreds.

Further information is available at [sydbank.dk/omsydbank/organisation/risikoudvalg](http://sydbank.dk/omsydbank/organisation/risikoudvalg) (in Danish only).

#### **Remuneration Committee**

The Remuneration Committee reports to the Board of Directors and convenes as a minimum once a year.

The Remuneration Committee formulates the Bank's remuneration policy and decides which of the Bank's functions are covered by the concept of "material risk takers". Following approval by the Board of Directors the remuneration policy is submitted to the general meeting which will make the final decision. The Remuneration Committee monitors that the remuneration policy in force is complied with.

In connection with the amendment of the Danish Financial Business Act adopted on 1 December 2016, the requirements to the Remuneration Committee were extended. According to the new requirements the Remuneration Committee must verify information about remuneration issues presented to the general meeting, perform assessments and controls of the Bank's remuneration processes and ensure that the use of variable remuneration complies with the rules of the remuneration policy and legislation.

The Remuneration Committee also prepares a recommendation to the Board of Directors concerning the remuneration of the members of the Shareholders' Committee.

The Remuneration Committee convened three times in 2016.

The committee consists of Peder Damgaard (Chairman), General Manager and former Principal, Torben Nielsen, former Central Bank Governor, Janne Moltke-Leth, General Manager, and Alex Slot Hansen, Executive Vice President, Private Banking.

Further information is available at [sydbank.dk/omsydbank/organisation/loenuudvalg](http://sydbank.dk/omsydbank/organisation/loenuudvalg) (in Danish only).

#### **Nomination Committee**

The Nomination Committee reports to the Board of Directors and convenes as a minimum four times a year.

The Nomination Committee is tasked with evaluating management and must moreover identify and describe the competences required in the Bank's Board of Directors and assess whether they are present.

Furthermore the committee must propose new potential candidates for the advisory boards and the Shareholders' Committee so that new members to the Board of Directors may be recruited from the Shareholders' Committee to the widest extent possible.

The Nomination Committee convened five times in 2016.

The committee consists of Torben Nielsen (Chairman), former Central Bank Governor, Peder Damgaard, General Manager and former Principal, Jacob Chr. Nielsen, General Manager, and Frank Møller Nielsen, Attorney.

Further information is available at [sydbank.dk/omsydbank/organisation/nomineringsudvalg](http://sydbank.dk/omsydbank/organisation/nomineringsudvalg) (in Danish only).

#### **Internal Audit**

To gain an objective and independent assessment of the adequacy, effectiveness and quality of the Group's internal controls, the Bank has established an internal audit function reporting to the Bank's Board of Directors.

Internal Audit performs audits focusing, among other factors, on the most significant areas of the Bank's compliance and risk management. In addition Internal Audit oversees that:

- the Group has good administrative and accounting practices
- there are business procedures and internal controls for all important areas of activity
- management's instructions on security and controls are incorporated into business procedures and are observed
- there are prudent control and security measures within IT.

# Corporate Social Responsibility

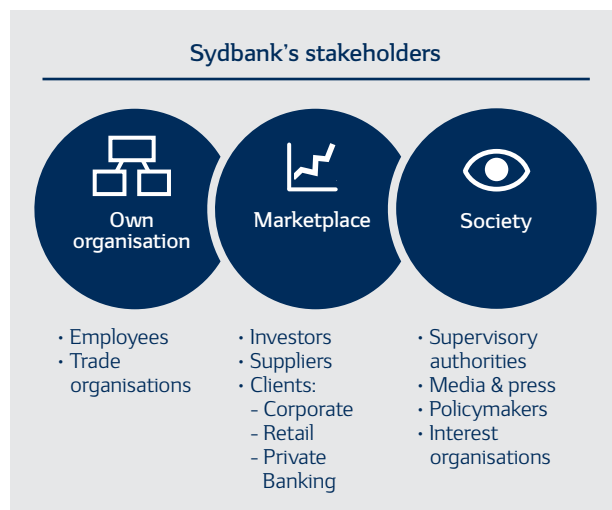
Sydbank has a solid financial foundation that offers room for more business with new customers as well as existing customers. Our growth must be built on a strong and sound foundation. We grow through long-term and close relationships with customers and see acquisitions as an opportunity. Sydbank wishes to remain a bank operating on its own terms and with strong partnerships.

We have a clear goal to carry out our role as a bank as effectively and responsibly as possible.

Sydbank is conscious of the social responsibility that comes with being one of Denmark's leading banks. For instance we help to ensure that businesses and individuals have flexible cash management solutions and we support the housing market by providing financing options. We also ensure that individuals as well as businesses have easy access to make financial transactions using the latest technology. And by providing advice we seek to contribute to the healthy growth and development in people's finances on the basis of balanced risks. In this way Sydbank, along with the rest of the financial sector, contributes to financial stability and cohesion in society.

As a listed company and bank, Sydbank's first obligation is to its shareholders. But we are conscious that Sydbank's growth and existence also depend on an ongoing dialogue and interaction with a number of other stakeholders in:

- our own organisation
- the marketplace
- society at large.



## Updated CSR policy

Sydbank's focus on enhancing its CSR efforts continued in 2016. One of the results of this work was the updating of the Bank's CSR policy. The revised version of the policy was submitted and approved at the Board of Directors' meeting on 15 December 2016. The overall aim of the changes was to simplify and update the wording as well as to expand reporting on the Bank's corporate social responsibility in relation to three areas:

- people
- the environment
- finance.

The Bank aims to expand its reporting and improve the basis of reporting in these three areas during 2017.

## People

Sydbank strives to be a workplace characterised by high customer satisfaction and employees known for their deep commitment and professional skills. We measure our efforts and we also have systematic follow-up procedures.

Employee satisfaction surveys are carried out every two years, most recently in 2016, by an independent institute, Rambøll Management Consulting, which ensures anonymity in responses.

Sydbank wants its organisation to reflect the diversity of today's society. We are also sensitive to the needs of employees facing special challenges such as serious illness or personal difficulties and wherever possible we will help to find a solution. In 2016 special flex job and vocational rehabilitation schemes for employees at Sydbank corresponded to 14 full-time positions.

In 2016 Sydbank worked on developing a new staff induction programme that will be implemented in 2017. The programme aims to ensure a more uniform introduction to Sydbank for new employees.

Sydbank has a responsibility to ensure that there is always an open and unbiased selection process in the organisation without any form of discrimination – and that the organisation aptly reflects the labour market's composition in terms of gender and other differences such as age, ethnic background and culture. Diversity in all its forms creates the best and most dynamic work climate and this is what we want to focus on at Sydbank.

When recruiting people, a guiding point at Sydbank is however that both genders are represented among the final three candi-

dates. The overall gender distribution at Sydbank was 53% female and 47% male in 2016.

In recent years Sydbank's Board of Directors has consisted predominantly of male members elected by the general meeting and consequently Sydbank's current target is to have two women shareholder-elected board members by 2019 to ensure diversity. The female representation on the Board of Directors was increased by one shareholder-elected member in 2016, which means that one of the Bank's eight shareholder-elected board members is a woman.

The share of women in management positions (managers with staff responsibilities) at Sydbank was 32% in 2016.

#### Environment

Sydbank works systematically to minimise the environmental footprint of its business operations. This applies in particular to its buildings where the ambition is to provide the best possible working environment and level of comfort for employees while having the lowest possible energy consumption as regards heating, cooling and electricity.

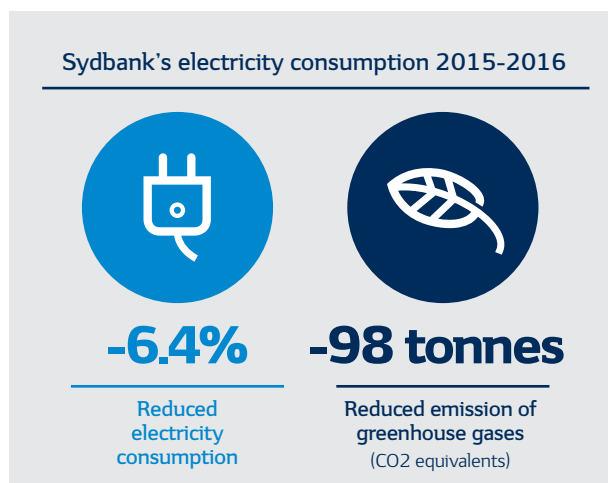
In 2016 Sydbank's premises had a total floor area of 105,784m<sup>2</sup>. The buildings are located all over the country and vary greatly in terms of size, age, use and requirements.

Electricity accounts for the largest part of the energy used in the Bank's operations. In 2016 Sydbank's electricity consumption totalled 6.98 million kWh, which is 6.4% lower than the year before. Since Sydbank's total floor area declined by 3.6% during the same period, the actual reduction in Sydbank's electricity consumption was 2.9% per square metre.

In terms of environmental impact, the decline in Sydbank's electricity consumption from 2015 to 2016 has reduced the emission of greenhouse gases (CO<sub>2</sub> equivalents) by a total of 98.4 tonnes.\*

Sydbank expects to further reduce its electricity consumption by 2 kWh per floor square metre in 2017.

Sydbank's head office in Aabenraa uses considerably more electricity per square metre than the Bank's other buildings. One of the reasons is that the costs for energy used by the Bank for instance to cool and ventilate server rooms are paid via the head office.



Sydbank has installed central real-time monitoring of electricity consumed in buildings corresponding to 88% of the Bank's total floor space, which is why the figures for electricity consumed are reliable and valid.

During 2017 Sydbank will work on refining reporting on energy consumption.

#### Economy

As one of Denmark's systemically important financial institutions (SIFI), Sydbank complies with more stringent capital requirements and is also in close dialogue with supervisory authorities regarding statutory requirements and compliance.

The Bank's guidelines regarding lending are set out in its credit policy, which was revised in 2016. Sydbank's credit policy forms the basis of lending to customers. The solutions offered must at all times be on an informed and well-founded basis and ensure that customers have healthy and sustainable finances.

Sydbank manages significant portfolios in investment markets – on behalf of the Bank and on behalf of its customers – and is mindful that environmental, social and corporate governance (ESG) issues are taken into account in terms of the companies invested in.

\* CO<sub>2</sub> emissions based on the 125% method and an estimated transmission loss of 5%, cf Energinet.dk's calculator.

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# Corporate Social Responsibility

This is why Sydbank signed the UN Principles for Responsible Investment (UN PRI) in 2010 and consequently the Bank incorporates ESG principles formulated in the UN Global Compact into its investment decisions.

Sydbank collaborates with GES Investment Services (GES) in order to monitor investment markets to ensure that investments made by Sydbank live up to the ESG principles for responsible investment and the UN Global Compact.

In addition to the collaboration with GES, Sydbank has initiated an internal screening procedure of markets that are considered to be problematic in terms of ESG principles. As a result of the screening an internal list is updated every quarter.

Sydbank collaborates with the authorities to combat financial crime and money laundering as stipulated in the Danish Consolidating Act on Measures to Prevent Money Laundering and Financing of Terrorism. Sydbank acknowledges that banks' corporate social responsibility includes contributing to this important task.

In order to prevent transactions related to terrorist financing, Sydbank has implemented an automatic screening process on the basis of sanctions lists from the EU, UN, USA, FATF etc. Sydbank will continue to focus on combating money laundering and financial crime in 2017.

Since 2013 Sydbank has participated in a joint project called Tax Governance with SKAT, the Danish tax authorities, to strengthen the cooperation on a swift and efficient clarification of the Group's fiscal and tax issues. Via the cooperation – which is based on mutual openness and trust – the Group is able to learn about SKAT's position on concrete fiscal and/or tax issues. This contributes to minimising future risks.

As a financial undertaking, Sydbank carries out an important social task by reporting information to SKAT which forms the basis of the automatic issue of annual statements for a significant number of Danish taxpayers. Via Tax Governance contributions are made on an ongoing basis to enhance the general quality of reporting, which makes tax collection efficient and simple for the authorities as well as customers.

Sydbank does not wish to take part in any financial transaction where motives or business practices may be called into question, regardless of its legality

## Sponsorships and local engagement

Sydbank's approach to sponsorships is influenced by the Bank's commitment to local relationships and dialogue. Our primary focus is on contributing locally and supporting projects that help create local value and relationships. Sydbank helps to support and develop local association activities and sports activities in particular via its sponsorships, most of which are given locally via Sydbank's nine regions.

In 2016 Sydbank's funds, Sydbank Fonden and Sydbank Sønderjyllands Fond, gave DKK 6.3 million to 426 recipients with dreams of carrying out cultural or other general interest projects.

In 2016 Sydbank Fonden also awarded 60 travel grants of DKK 10,000 to young students at some of the country's business colleges, upper secondary schools and vocational colleges representing a wide cross-section of Sydbank's area of operations.

The annual CSR Report is available at [sydbank.com](http://sydbank.com).







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# Income Statement

DKKm	Note	Sydbank Group		Sydbank A/S	
		2016	2015	2016	2015
Interest income	7	2,674	2,846	2,677	2,849
Interest expense	8	281	342	381	343
<b>Net interest income</b>		<b>2,393</b>	<b>2,504</b>	<b>2,296</b>	<b>2,506</b>
Dividends on shares	9	47	64	47	64
Fee and commission income	10	1,902	1,902	1,768	1,784
Fee and commission expense	10	340	300	276	238
<b>Net interest and fee income</b>		<b>4,002</b>	<b>4,170</b>	<b>3,835</b>	<b>4,116</b>
Market value adjustments	11	553	251	553	252
Other operating income	12	31	40	30	40
Staff costs and administrative expenses	13	2,487	2,455	2,431	2,413
Amortisation, depreciation and impairment of intangible assets and property, plant and equipment		115	97	102	74
Other operating expenses		19	130	19	130
Impairment of loans and advances etc	14	98	311	98	311
Profit/(Loss) on holdings in associates and subsidiaries	15	2	5	71	(23)
<b>Profit before tax</b>		<b>1,869</b>	<b>1,473</b>	<b>1,839</b>	<b>1,457</b>
Tax	16	397	325	367	309
<b>Profit for the year</b>		<b>1,472</b>	<b>1,148</b>	<b>1,472</b>	<b>1,148</b>
<b>Distribution of profit for the year</b>					
Profit for the year				1,472	1,148
<b>Total amount to be allocated</b>				<b>1,472</b>	<b>1,148</b>
Proposed dividend				736	803
Proposal for allocation for other purposes				10	10
Transfer to shareholders' equity				726	335
<b>Total amount allocated</b>				<b>1,472</b>	<b>1,148</b>
EPS Basic (DKK)*		20.9	15.8	20.9	15.8
EPS Diluted (DKK)*		20.9	15.8	20.9	15.8
Proposed dividend per share (DKK)		10.46	11.12	10.46	11.12

\* Calculated on the basis of average number of shares outstanding, see page 17.

## Statement of Comprehensive Income

<b>Profit for the year</b>	<b>1,472</b>	<b>1,148</b>	<b>1,472</b>	<b>1,148</b>
<b>Other comprehensive income</b>				
Items that may be reclassified to the income statement:				
Translation of foreign entities	1	26	1	26
Hedge of net investment in foreign entities	(1)	(26)	(1)	(26)
Property revaluation	3	0	3	0
<b>Other comprehensive income after tax</b>	<b>3</b>	<b>0</b>	<b>3</b>	<b>0</b>
<b>Comprehensive income for the year</b>	<b>1,475</b>	<b>1,148</b>	<b>1,475</b>	<b>1,148</b>

# Balance Sheet

DKKm	Note	Sydbank Group		Sydbank A/S	
		2016	2015	2016	2015
<b>Assets</b>					
Cash and balances on demand at central banks		2,047	967	2,047	967
Amounts owed by credit institutions and central banks	17	6,981	4,274	6,977	4,267
Loans and advances at fair value	18	6,092	10,183	6,092	10,183
Loans and advances at amortised cost	18	77,191	74,275	77,358	74,439
Bonds at fair value	19	26,331	26,362	26,299	26,330
Shares etc	20	1,838	1,736	1,838	1,735
Holdings in associates etc	21	162	163	162	163
Holdings in subsidiaries	22	-	-	2,351	2,281
Assets related to pooled plans	23	13,817	12,000	13,817	12,000
Intangible assets	24	303	324	300	321
Owner-occupied property	25	986	1,012	816	831
Other property, plant and equipment	26	69	68	69	68
Current tax assets		11	185	13	185
Deferred tax assets		57	83	16	14
Assets in temporary possession		2	7	1	3
Other assets	27	10,742	11,047	10,737	11,038
Prepayments		57	56	56	55
<b>Total assets</b>		<b>146,686</b>	<b>142,742</b>	<b>148,949</b>	<b>144,880</b>
<b>Shareholders' equity and liabilities</b>					
Amounts owed to credit institutions and central banks	28	17,556	17,785	17,800	18,028
Deposits and other debt	29	81,109	79,900	83,138	81,823
Deposits in pooled plans		13,825	12,009	13,825	12,009
Bonds issued at amortised cost	30	3,714	3,727	3,714	3,727
Current tax liabilities		38	-	41	-
Other liabilities	31	16,187	15,440	16,176	15,414
Deferred income		3	4	3	4
<b>Total liabilities</b>		<b>132,432</b>	<b>128,865</b>	<b>134,697</b>	<b>131,005</b>
Provisions	32	373	320	371	318
Subordinated capital	33	2,124	2,130	2,124	2,130
<b>Shareholders' equity:</b>					
Share capital		722	742	722	742
Revaluation reserves		82	79	82	79
Other reserves:					
Reserves according to articles of association		425	425	425	425
Reserve for net revaluation according to equity method		13	13	13	13
Retained earnings		9,769	9,355	9,769	9,355
Proposed dividend etc		746	813	746	813
<b>Total shareholders' equity</b>		<b>11,757</b>	<b>11,427</b>	<b>11,757</b>	<b>11,427</b>
<b>Total shareholders' equity and liabilities</b>		<b>146,686</b>	<b>142,742</b>	<b>148,949</b>	<b>144,880</b>

# Statement of Changes in Equity

Sydbank Group

DKKm							
	Share capital	Revaluation reserves	Reserves acc to articles of association	Reserve for net revaluation acc to equity method	Retained earnings	Proposed dividend etc	Total
Shareholders' equity at 1 Jan 2016	742	79	425	13	9,355	813	11,427
Profit for the period				0	726	746	1,472
<b>Other comprehensive income</b>							
Translation of foreign entities					1		1
Hedge of net investment in foreign entities					(1)		(1)
Property revaluation		3			0		3
Total other comprehensive income	-	3	-	0	0	-	3
<b>Comprehensive income for the year</b>	-	<b>3</b>	-	<b>0</b>	<b>726</b>	<b>746</b>	<b>1,475</b>
<b>Transactions with owners</b>							
Purchase of own shares					(1,384)		(1,384)
Sale of own shares					1,487		1,487
Reduction of share capital	(20)				(425)		(445)
Dividend etc paid						(813)	(813)
Dividend, own shares					10		10
Total transactions with owners	(20)	-	-	-	(312)	(813)	(1,145)
<b>Shareholders' equity at 31 Dec 2016</b>	<b>722</b>	<b>82</b>	<b>425</b>	<b>13</b>	<b>9,769</b>	<b>746</b>	<b>11,757</b>
Shareholders' equity at 1 Jan 2015	742	90	425	10	9,508	536	11,311
Profit for the period				3	332	813	1,148
<b>Other comprehensive income</b>							
Translation of foreign entities					26		26
Hedge of net investment in foreign entities					(26)		(26)
Property revaluation		(11)			11		-
Total other comprehensive income	-	(11)	-	-	11	-	-
<b>Comprehensive income for the year</b>	-	<b>(11)</b>	-	<b>3</b>	<b>343</b>	<b>813</b>	<b>1,148</b>
<b>Transactions with owners</b>							
Purchase of own shares					(2,225)		(2,225)
Sale of own shares					1,722		1,722
Dividend etc paid						(536)	(536)
Dividend, own shares					7		7
Total transactions with owners	-	-	-	-	(496)	(536)	(1,032)
<b>Shareholders' equity at 31 Dec 2015</b>	<b>742</b>	<b>79</b>	<b>425</b>	<b>13</b>	<b>9,355</b>	<b>813</b>	<b>11,427</b>

DKKm							
	Share capital	Revaluation reserves	Reserves acc to articles of association	Reserve for net revaluation acc to equity method	Retained earnings	Proposed dividend etc	Total
Shareholders' equity at 1 Jan 2016	742	79	425	13	9,355	813	11,427
Profit for the period				0	726	746	1,472
<b>Other comprehensive income</b>							
Translation of foreign entities					1		1
Hedge of net investment in foreign entities					(1)		(1)
Property revaluation		3			0		3
Total other comprehensive income	-	3	-	0	0	-	3
<b>Comprehensive income for the year</b>	-	3	-	0	726	746	1,475
<b>Transactions with owners</b>							
Purchase of own shares					(1,384)		(1,384)
Sale of own shares					1,487		1,487
Reduction of share capital	(20)				(425)		(445)
Dividend etc paid						(813)	(813)
Dividend, own shares					10		10
Total transactions with owners	(20)	-	-	-	(312)	(813)	(1,145)
<b>Shareholders' equity at 31 Dec 2016</b>	<b>722</b>	<b>82</b>	<b>425</b>	<b>13</b>	<b>9,769</b>	<b>746</b>	<b>11,757</b>
Shareholders' equity at 1 Jan 2015	742	90	425	10	9,508	536	11,311
Profit for the period				3	332	813	1,148
<b>Other comprehensive income</b>							
Translation of foreign entities					26		26
Hedge of net investment in foreign entities					(26)		(26)
Property revaluation		(11)			11		-
Total other comprehensive income	-	(11)	-	-	11	-	-
<b>Comprehensive income for the year</b>	-	(11)	-	3	343	813	1,148
<b>Transactions with owners</b>							
Purchase of own shares					(2,225)		(2,225)
Sale of own shares					1,722		1,722
Dividend etc paid						(536)	(536)
Dividend, own shares					7		7
Total transactions with owners	-	-	-	-	(496)	(536)	(1,032)
<b>Shareholders' equity at 31 Dec 2015</b>	<b>742</b>	<b>79</b>	<b>425</b>	<b>13</b>	<b>9,355</b>	<b>813</b>	<b>11,427</b>

\* Reserves according to the articles of association equal the undistributable savings bank reserve in accordance with Article 4 of the Articles of Association.

The share capital comprises 72,240,199 shares at a nominal value of DKK 10 or a total of DKK 722.4m. The Bank has only one class of shares as all shares carry the same rights.

# Cash Flow Statement

DKKm	Sydbank Group	
	2016	2015
<b>Operating activities</b>		
Pre-tax profit for the year	1,869	1,473
Taxes paid	(245)	(427)
Adjustment for non-cash operating items:		
Profit/(Loss) on holdings in associates	(2)	(5)
Amortisation and depreciation of intangible assets and property, plant and equipment	115	97
Impairment of loans and advances/guarantees	98	311
Other non-cash operating items	80	67
	1,915	1,516
Changes in working capital:		
Credit institutions and central banks	(945)	(7,080)
Trading portfolio	(71)	9,627
Other financial instruments at fair value	(533)	476
Loans and advances	1,078	(9,427)
Deposits	1,208	5,978
Other assets/liabilities	1,653	1,424
Cash flows from operating activities	4,305	2,514
<b>Investing activities</b>		
Sale of holdings in associates	1	13
Purchase of intangible assets	0	(10)
Purchase of property, plant and equipment	(97)	(69)
Sale of property, plant and equipment	28	56
Cash flows from investing activities	(68)	(10)
<b>Financing activities</b>		
Purchase and sale of own holdings	(342)	(503)
Dividends etc	(803)	(529)
Raising/redemption of subordinated capital	(6)	745
Issue/redemption of bonds	(13)	(14)
Cash flows from financing activities	(1,164)	(301)
<b>Cash flows for the year</b>	<b>3,073</b>	<b>2,203</b>
Cash and cash equivalents at 1 Jan	4,488	2,285
Cash flows for the year (changes during the year)	3,073	2,203
<b>Cash and cash equivalents at 31 Dec</b>	<b>7,561</b>	<b>4,488</b>
<b>Cash and cash equivalents at 31 Dec</b>		
Cash and balances on demand at central banks	2,047	967
Fully secured cash and cash equivalent balances on demand with credit institutions and insurance companies	1,198	3,521
Unencumbered certificates of deposit	4,316	-
<b>Cash and cash equivalents at 31 Dec</b>	<b>7,561</b>	<b>4,488</b>

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# Notes

## Note 1 Accounting policies

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### Basis of preparation

The consolidated financial statements of Sydbank are prepared in compliance with International Financial Reporting Standards (IFRS) as adopted by the EU. The financial statements of the parent, Sydbank A/S, are prepared in compliance with the Danish Financial Business Act, including the Danish executive order on financial reporting of credit institutions and brokerage firms etc, which is in compliance with the provisions on recognition and measurement according to IFRS.

Furthermore the Annual Report is prepared in compliance with additional Danish disclosure requirements for annual reports of listed financial companies.

On 1 March 2017 the Board of Directors and the Group Executive Management reviewed and approved the 2016 Annual Report of Sydbank A/S. The Annual Report will be submitted for adoption by the AGM on 23 March 2017.

### New accounting policies

The following amendments to IFRS have been implemented effective as from 1 January 2016:

- Amendments to IAS 1 in relation to the use of subtotals
- Amendments to IAS 16 and 38 in relation to methods of depreciation and amortisation of property, plant and equipment and intangible assets
- Amendments to IAS 27 in relation to the measurement of investments
- Amendments to different standards pursuant to "Annual Improvements to IFRSs".

Sydbank's implementation of the new or amended standards has not had any effect on recognition and measurement in the consolidated financial statements and consequently it has had no impact on EPS Basic.

Apart from the above the accounting policies applied are consistent with those adopted in the previous year.

### Recognition and measurement

Assets are recognised in the balance sheet when it is probable that future economic benefits will flow to the Group and the value of the asset can be measured reliably. Liabilities are recognised in the balance sheet when they are probable and can be measured reliably.

On initial recognition assets and liabilities are measured at fair value. Subsequent measurement of assets and liabilities is as described for each item below.

Recognition and measurement take into account gains, losses and risks arising before the presentation of the financial statements and which confirm or invalidate circumstances existing at the balance sheet date.

Income is recognised in the income statement as earned. Costs incurred to earn the year's income are recognised in the income statement. Value adjustments of financial assets, financial liabilities and derivatives are recognised in the income statement apart from value adjustments of derivatives used to provide foreign currency hedge of net investments in foreign subsidiaries and associates. The latter value adjustments are recognised in the statement of comprehensive income. Purchase and sale of financial instruments are recognised on the settlement date.

### Significant recognition and measurement principles

#### Consolidated financial statements

The consolidated financial statements include the parent, Sydbank A/S, as well as subsidiaries in which Sydbank A/S exercises control over financial and operating policies. Group holdings and enterprises (Note 44) lists the consolidated entities.

The consolidated financial statements combine the financial statements of the parent and the individual subsidiaries in accordance with the Group's accounting policies, in which intra-group income, costs, shareholdings, balances and dividends as well as realised and unrealised gains on intragroup transactions have been eliminated.

Entities acquired are included from the acquisition date.

The assets (including identifiable intangible assets), liabilities and contingent liabilities of entities acquired are recognised at the acquisition date at fair value in accordance with the acquisition method.

Where the cost of acquisition exceeds the fair value of the net assets of the entity acquired, the difference is recognised as goodwill. Goodwill is recognised in the functional currency of the entity acquired at the exchange rate on the date of transaction. Where the fair value of net assets exceeds the cost of acquisition (negative goodwill), the difference is recognised as income in the income statement at the acquisition date. Costs in connection with acquisition are recognised in the income statement when incurred.

Entities disposed of are included until the transfer date.

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# Notes

## Note 1 Accounting policies – continued

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### Foreign currency translation

The consolidated financial statements are presented in DKK, the functional currency of the parent. Transactions in foreign currencies are translated at the exchange rate on the date of transaction. Balances in foreign currencies are translated at the closing rate.

### Offsetting

The Group sets off assets and liabilities only when the Group has a legally enforceable right to set off the recognised amounts and intends to settle on a net basis or to realise the asset and settle the liability simultaneously.

### Income criteria

Income and expenses, including interest income and interest expense, are accrued over the periods to which they relate and are recognised in profit or loss at the amounts relevant to the accounting period. Fees and commission concerning loans and advances and amounts owed are recognised in the carrying amounts of loans and advances and amounts owed and are recognised in profit or loss over the life of the loans as part of the effective interest rate. Guarantee commission is recognised as income over the life of the guarantees. Income for implementing a given transaction, including securities fees and payment service fees, is recognised as income when the transaction has been implemented.

### Guarantee scheme

Contributions to the Guarantee Fund and the Resolution Fund, for instance to cover losses related to the winding-up or bankruptcy of banks, are recognised under "Other operating expenses".

### Repo and reverse transactions

Securities sold under agreements to repurchase the same remain on the balance sheet. Consideration received is recognised as a debt and the difference between selling and buying prices is recognised over the life as interest in the income statement. Gains or losses on securities are recognised in the income statement.

Securities bought under agreements to resell the same are not recognised in the balance sheet and gains or losses on securities are not recognised in the income statement. Consideration paid is recognised as a receivable and the difference between buying and selling prices is recognised over the life as interest in the income statement.

Repo and reverse transactions are recognised and measured at fair value as they are regarded as an integral part of the trading

portfolio and form part of ongoing risk management and determination of gains thereon.

### Amounts owed and loans and advances

Initial recognition of amounts owed by credit institutions and central banks as well as loans and advances is at fair value plus transaction costs and less origination fees received.

Subsequent measurement of amounts owed by credit institutions etc and loans and advances that are not reverse transactions is at amortised cost less impairment charges.

Amounts owed by credit institutions etc and loans and advances at amortised cost are all assessed to determine whether objective evidence of impairment exists. Amounts owed and loans and advances of a significant size are all assessed individually to determine whether objective evidence of impairment exists.

There is objective evidence of impairment of amounts owed and loans and advances if one or more of the following events have occurred:

- Considerable financial difficulties on the part of the debtor.
- Breach of contract by the debtor, for instance by way of failure to fulfil the payment obligations as regards instalments and interest.
- Terms granted to the debtor by the Group which would otherwise not have been considered if the debtor had not been experiencing financial difficulties.
- The likelihood of bankruptcy or other financial restructuring on the part of the debtor.

Impairment charges are determined individually when there is objective evidence of impairment at an individual level.

Individually assessed loans and advances without impairment as well as other loans and advances are subsequently assessed at portfolio level. If there is objective evidence of impairment at portfolio level an impairment test is carried out where the expected future cash flows are estimated on the basis of the historical loss experience adjusted for the effects of prevailing conditions. The impairment charge for the portfolio is calculated via a ratings based approach where loans and advances are grouped according to client ratings at the balance sheet date. Where migration to lower rating categories is registered, impairment charges are made on a net basis.

Impairment charges calculated via the ratings based approach are supplemented by management's estimates and the effect of events unaccounted for by the approach.



## Note 1 Accounting policies – continued

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Impairment charges are determined as the difference between amortised cost and the discounted value of expected future cash flows, including the realisable value of any collateral.

Individual impairment charges are determined on the basis of the most likely outcome of the cash flows. Any subsequent increase in the discounted value of expected future cash flows will result in reversal in full or in part of the impairment charge. Determination of the discounted value is based on the original effective interest rate as regards fixed-rate loans and advances and the current effective interest rate as regards floating-rate loans and advances.

Interest is recognised as income on the basis of the impaired value from the time when impairment charges for loans and advances are recognised.

### Leasing

Leased assets in connection with finance leases in which the Group is the lessor are recognised under loans and advances at the net investment in the leases less amortisation (repayment) which is computed according to the annuity method over the lease term. Income from the leased assets is recognised on the basis of the agreed effective interest rate of the leases and is recognised in profit or loss under "Interest income". Sales proceeds from leased assets are recognised under "Other operating income".

### Bonds and shares etc

Bonds and shares etc are recognised and measured at fair value. The fair value option is applied to shares outside the trading portfolio as they form part of a portfolio which is managed and measured at fair value. The fair value is the amount for which a financial asset can be exchanged between knowledgeable, willing parties.

In an active market, fair value is expressed by quoted prices or alternatively by a model value, based on recognised models and observable market data, which corresponds to fair value.

In a less active or inactive market, fair value is a model value based on recognised models and observable market data for similar assets.

A limited number of bonds and shares are measured on the basis of models and available data that only to a limited extent are observable market data.

Determination of fair value of unlisted shares and other holdings is based on available information about trades etc or alter-

natively on expected cash flows. If a reliable fair value cannot be determined, measurement will be at cost less any impairment charges.

Purchase and sale of securities are recognised on the settlement date.

### Holdings in subsidiaries

Subsidiaries are entities in which the parent has control. Holdings in subsidiaries are recognised and measured in the financial statements of the parent according to the equity method. The proportionate share of the profit or loss after tax of the entities is recognised under "Profit/(Loss) on holdings in associates and subsidiaries".

### Holdings in associates

Associates are entities in which the Group has holdings and significant influence but not control. Holdings in associates are recognised and measured according to the equity method. The proportionate share of the profit or loss after tax of the entities is recognised under "Profit/(Loss) on holdings in associates and subsidiaries".

### Derivatives and hedge accounting

Derivatives are recognised and measured at fair value. Positive market values are recognised under "Other assets". Negative market values are recognised under "Other liabilities".

Market value adjustment of derivatives concluded for the purpose of hedging the interest rate risk of fixed-rate loans and advances generates immediate asymmetry in the financial statements as fixed-rate loans and advances are measured at amortised cost. The macro hedging rules (fair value hedging) of IFRS eliminate this asymmetry. The calculated change in the fair value of the loans and advances effectively hedged is recognised in the balance sheet under "Other assets" or under "Other liabilities" and is recognised in the income statement under "Market value adjustments".

### Pooled plans

All pooled assets and deposits are recognised in separate balance sheet items. Return on pooled assets and distribution to holders of pooled assets are recognised under "Market value adjustments". The assets in which holders' savings are placed are measured at fair value.

The portfolio of shares and bonds issued by the Group has been reduced in equity and bonds issued, respectively. Consequently "Deposits in pooled plans" exceed "Assets related to pooled plans".

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# Notes

## Note 1 Accounting policies – continued

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### Intangible assets

Intangible assets concern the value of customer relationships acquired in connection with acquisitions as well as goodwill.

The value of customer relationships acquired is measured at cost less accumulated amortisation and impairment charges. The value of customer relationships acquired is amortised over the expected useful life of 5-15 years.

Initial recognition of goodwill is at cost in the balance sheet as described under acquisitions. Subsequent measurement of goodwill is at cost less accumulated impairment charges. Goodwill is not amortised. Goodwill is tested for impairment annually and is written down to its recoverable amount through profit or loss if the carrying amount is higher. The recoverable amount is determined as the present value of the future net cash flows expected to be derived from the activity to which goodwill is related. The determination of cash-generating units follows the management structure and the management control. Management assesses the lowest level of cash-generating units to which the carrying amount of goodwill may be allocated.

Impairment charges for goodwill are not reversed.

### Owner-occupied property

Owner-occupied property is property mainly used by the Group to operate its banking business.

Owner-occupied property is recognised on acquisition at cost and subsequently carried at a revalued amount corresponding to the fair value at the date of revaluation less depreciation and impairment charges. Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.

Any decrease in the carrying amount as a result of the revaluation of owner-occupied property is charged to the income statement except where the decrease reverses previously recognised increases. Any increase as a result of the revaluation of owner-occupied property is recognised in other comprehensive income and transferred to revaluation reserves under equity except where an increase reverses previously recognised impairment charges as regards the property in question.

Owner-occupied property is depreciated on a straight-line basis over the expected useful life of 50 years, taking into account the expected residual value at the expiry of the useful life.

As regards ongoing measurement of land and buildings, the value of the individual property is measured on the basis of the return method.

The underlying assumptions, return and rate of return are assessed by external valuers.

Depreciation and impairment charges are recognised in the income statement under "Depreciation and impairment of property, plant and equipment".

### Other property, plant and equipment

Other property, plant and equipment is measured at cost less depreciation and impairment charges. Depreciation is provided on a straight-line basis over the expected useful life, typically 3-5 years. Leasehold improvements are depreciated over the term of the lease.

Depreciation and impairment charges are recognised in the income statement under "Depreciation and impairment of property, plant and equipment".

### Other assets

This item includes assets not recognised under other asset items, eg positive market values of spot transactions and derivatives, cash collateral provided in connection with CSA agreements as well as interest receivable.

### Dividend

Proposed dividend is recognised as a liability at the date of adoption by the AGM. Proposed dividend for the year is recognised as a separate item in equity until adoption.

### Own shares

Consideration paid or received in connection with the Group's purchase and sale of Sydbank shares is recognised directly in equity.

### Other liabilities

This item includes negative market values of spot transactions and derivatives, cash collateral received in connection with CSA agreements, negative portfolios in connection with reverse transactions, interest payable as well as provisions for employee benefits.

Negative portfolios in connection with reverse transactions arise when the Group resells assets received as collateral in connection with reverse transactions. The assets received are not recognised in the balance sheet and any resale will therefore result in a negative portfolio.

## Note 1 Accounting policies – continued

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Wages and salaries, payroll tax, social security contributions as well as paid absences are recognised in the financial year in which the related service has been rendered by the Group's employees. Costs relating to the Group's long-term employee benefits are accrued and follow the service rendered by the employees in question. Pension contributions are paid into the employees' pension plans on a continuing basis and are charged to the income statement – with the exception of two contracts where the capitalised value of the pension commitments has been provided for. Changes in the capitalised value of pension commitments are recognised in the income statement on an ongoing basis.

### Provisions

Provisions include provisions for guarantees, provisions for onerous contracts as well as legal actions etc. Initial recognition of financial guarantees is at fair value which is often equal to the guarantee premium received. Subsequent measurement of guarantees is at the higher of the guarantee premium received amortised over the guarantee period and any provision made.

A provision for a guarantee or an onerous contract is recognised if claims for payment under the guarantee or contract are probable and the size of the liability can be measured reliably. Provisions are based on management's best estimates of the size of the liabilities. Measurement of provisions includes discounting when significant.

### Financial liabilities

Deposits, bonds issued, subordinated capital and amounts owed to credit institutions etc are recognised initially at fair value less transaction costs incurred.

Subsequent measurement of deposits, bonds issued, subordinated capital and amounts owed to credit institutions etc that are not repo transactions is at amortised cost using the effective interest rate method whereby the difference between net proceeds and nominal value is recognised in the income statement under "Interest expense" over the loan period.

Other liabilities are measured at net realisable value.

### Assets in temporary possession

Assets in temporary possession include property, plant and equipment and disposal groups held for sale. Assets are classified as being in temporary possession when their carrying amount will be recovered principally through a sale transaction within 12 months in accordance with a formal plan. Assets or disposal groups in temporary possession are measured at the

lower of the carrying amount and fair value less costs to sell. Assets are not depreciated or amortised from the time when they are classified as being in temporary possession.

Impairment losses arising at initial classification as assets being in temporary possession and gains or losses at subsequent measurement at the lower of the carrying amount and fair value less costs to sell are recognised in the income statement under the items they concern.

### Tax

Danish consolidated entities are subject to compulsory joint taxation. The Group has not opted for international joint taxation. Sydbank A/S has been appointed the management company of the joint taxation entity. Corporation tax on income subject to joint taxation is fully distributed on payment of joint taxation contributions between the Danish consolidated entities. Tax for the year includes tax on taxable income for the year, adjustment of deferred tax as well as adjustment of prior year tax charges. Tax for the year is recognised in the income statement as regards the elements attributable to profit for the year, in other comprehensive income as regards the elements attributable thereto and directly in equity as regards the elements attributable to items recognised directly in equity.

Current tax liabilities and current tax assets are recognised in the balance sheet as calculated tax on taxable income for the year adjusted for tax on prior year taxable income as well as for tax paid on account.

Provisions for deferred tax are based on the balance sheet liability method and include temporary differences between the carrying amounts and the tax base of the balance sheets of each consolidated entity as well as tax loss carryforwards that are expected to be used. Provisions for deferred tax are made to cover retaxation of previously deducted tax losses in the foreign subsidiary which has withdrawn from joint taxation. Deferred tax is measured on the basis of the tax rules and tax rates that, according to the rules in force at the balance sheet date, are applicable at the time the deferred tax is expected to crystallise as current tax.

Changes in deferred tax due to changes in tax rates are recognised in the income statement.

### Fair value measurement

The Group uses the concept of fair value in connection with certain disclosure requirements as well as for recognition and measurement of financial instruments. Fair value is defined as the

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# Notes

## Note 1 Accounting policies – continued

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price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

Fair value is a market-based measurement, not an entity-specific measurement. The entity uses the assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. As a result the entity's intention to hold an asset or to settle a liability is not considered when measuring fair value.

Fair value measurement is based on the principal market. If there is no principal market the most advantageous market is used as a basis, ie the market achieving the highest price for the asset or liability less transaction costs.

Fair value measurement is based to the widest extent possible on market values in active markets or alternatively on values derived from observable market data.

In so far as such observations are not available or cannot be used without significant modifications, acknowledged valuation techniques and reasonable estimates are used as the basis of fair values.

### Cash flow statement

The cash flow statement presents the cash flows from operating, investing and financing activities as well as cash and cash equivalents at the beginning and end of the year. The cash flow statement is presented using the indirect method based on profit before tax.

The cash flow effect of the acquisition and disposal of entities is reported separately under cash flows from investing activities. The cash flow statement recognises cash flows concerning entities acquired from the acquisition date and cash flows concerning entities disposed of until the transfer date.

Cash flows from operating activities are determined as profit before tax for the year adjusted for non-cash operating items, taxes paid as well as changes in working capital.

Cash flows from investing activities include purchase and sale of property, plant and equipment, intangible assets as well as holdings in associates.

Cash flows from financing activities include dividends paid as well as changes in equity, subordinated capital and bonds issued.

Cash and cash equivalents comprise cash and balances on demand at central banks, fully secured cash and cash equivalent balances on demand with credit institutions and insurance companies as well as unencumbered certificates of deposit.

### Segment reporting

The Group consists of a number of business units and central functions. The business units are segmented according to product and service characteristics and comprise Banking, Asset Management, Sydbank Markets, Treasury and Other. Further details of the business units are provided in note 5. The correlation between the income statement according to IFRS and the Group's performance measures are shown in note 6.

Segment reporting as regards the business units complies with the Group's accounting policies as regards recognition and measurement. Inter-segment transactions are settled on an arm's length basis. Centrally incurred costs are allocated to the business units in accordance with their estimated proportionate share of overall activities.

The following performance measures are used in connection with the Group's management control, see segment information stated in note 5.

### Core income

Core income comprises income from clients serviced by the Group's branch network, including interest, commission, investment fund commission, custody account fees and asset management fees.

### Trading income

Trading income only comprises income from clients affiliated with Sydbank Markets as well as income from flows and market-making as regards securities and other financial instruments as well as related position-taking.

### Core earnings before impairment

Core earnings before impairment charges for loans and advances etc represent core income and trading income less costs relating to these activities.

### Impairment of loans and advances etc

Impairment of loans and advances etc represent impairment charges for bank loans and advances, provisions for guarantees as well as credit valuation adjustment of derivatives.

### Core earnings

Core earnings represent core income and trading income less

## Note 1 Accounting policies – continued

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costs and impairment charges for loans and advances etc relating to these activities.

### Investment portfolio earnings

Investment portfolio earnings represent the return on the portfolios of shares, bonds, derivatives and holdings managed by Treasury, a department within the business unit Sydbank Markets. Investment portfolio earnings are less funding charges and administrative costs.

### Forthcoming standards and interpretations

The International Accounting Standards Board (IASB) has issued the following new International Financial Reporting Standards (IFRS) and Interpretations (IFRIC) which are not mandatory for the Group in connection with the preparation of the 2016 financial statements. These include IFRS 9, 15 and 16 as well as amendments to IAS 7, 12, IFRS 2 and 4. IFRS 9 has been adopted by the EU whereas none of the other forthcoming standards and interpretations have been adopted by the EU.

The Group does not plan to implement the new standards and interpretations until they become mandatory. The analysis of the expected impact of the implementation of IFRS 9 has not yet been completed, see below. The other new standards and interpretations are not expected to have any significant impact on the Group's financial reporting.

**IFRS 9** Financial Instruments, which will replace IAS 39, will change the classification and the resulting measurement of financial assets and financial liabilities.

The standard introduces a more logical approach for the classification of financial assets, driven by the entity's business model and the characteristics of the underlying cash flows. In addition a new impairment model for all financial assets will be introduced.

According to the new impairment model, impairment charges must be recognised for all the Bank's loans and advances and guarantees on the basis of statistically expected losses ("expected loss" model). Under the existing rules impairment charges are recognised only when there is objective evidence of impairment ("incurred loss" model). Under IFRS 9 exposures are divided into three groups for calculating impairment and are classified into different stages (1, 2 or 3), depending on the risk of credit loss.

The classification into stages and the calculation of expected loss will to a large extent be based on the Bank's existing rating models and credit management. Systems to calculate impair-

ment charges in accordance with IFRS are being developed and are adjusted in line with the Danish FSA's statements as regards the more detailed interpretation of the rules. Overall the change in the method to calculate credit loss is expected to trigger an increase in the Group's impairment charges. A more precise quantification is expected in 1H 2017.

Finally new hedge accounting rules will be introduced which compared with the existing rules will make it simpler from an accounting perspective to reflect entities' business hedging strategies.

Initial expectations are that the implementation of IFRS 9 will increase the Group's impairment charges and provisions for expected credit losses and correspondingly reduce the Group's shareholders' equity as at 1 January 2018 when the standard enters into force.

In general the expected negative accounting impact from the new IFRS 9 impairment model will have a similar impact on capital resources. To counter an unintended impact on capital resources and hence banks' possibilities of supporting lending, the European Commission has proposed a 5-year transitional arrangement as part of the reform package (Capital Requirements Package) presented by the Commission on 23 October 2016 so that an adverse impact from the new IFRS 9 impairment model will not have full effect on capital resources until a period of 5 years has passed.

**IFRS 15** Revenue from Contracts with Customers, which will replace the current revenue standards (IAS 11 and 18) and interpretations, introduces a new model for the recognition and measurement of revenue concerning sales contracts with customers. The new model is based on a five-step process to be followed as regards all sales contracts with customers to determine when and how revenue is to be recognised in the income statement. The Group expects that the standard will be of limited significance to the Group. The standard is expected to become mandatory for financial years beginning on or after 1 January 2018.

**IFRS 16** Leases will replace IAS 17 and related interpretations. IFRS 16 changes the accounting treatment of the Group's operating lease assets. The current distinction between finance leases and operating leases will be eliminated as regards lessees. The Group expects that the standard will be of limited significance to the Group. The standard is expected to become mandatory for financial years beginning on or after 1 January 2019.

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# Notes

## Note 2 Accounting estimates and judgements

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Management's estimates and judgements are based on assumptions considered reasonable by management but which by their nature are uncertain and unpredictable. These assumptions may be incomplete or inaccurate and unexpected future events or circumstances may occur. Consequently it is by nature difficult to make estimates and judgements and since they also involve customer relationships and other counterparties they will be subject to uncertainty. It may be necessary to change previous estimates as a result of changes in the basis of previous estimates or because of new knowledge or subsequent events.

The areas where critical estimates and judgements have the most significant effect on the financial statements are:

- Measurement of loans and advances and guarantees
- Fair value of financial instruments
- Fair value of owner-occupied property
- Acquisitions.

### Measurement of loans advances and guarantees

Impairment charges for loans and advances are made to take into account any impairment after initial recognition.

Impairment charges are recorded as a combination of individual and collective impairment charges and are subject to a number of estimates, including which loans and advances or portfolios of loans and advances are subject to objective evidence of impairment.

Impairment testing of individual loans and advances involves estimates of conditions associated with considerable uncertainty. The assessment involves estimates as regards the most likely future cash flow which the client is expected to generate.

Loans and advances for which there is no objective evidence of impairment or which are not subject to individual impairment charges form part of a group for which impairment is assessed at portfolio level.

The essential aspect of impairment testing as regards a group of loans and advances is to identify events that provide objective evidence of losses suffered by the group. The assessment of the present value of cash flows generated by clients in the group is associated with uncertainty when historical data are used to mirror the current situation.

Loans and advances with similar credit risk characteristics are grouped according to the Bank's rating model. Clients are rated on an ongoing basis and clients whose credit risk characteristics are estimated to have changed are assigned to new rating categories on an ongoing basis. Consequently clients' migration to lower rating categories is an indicator of deterioration.

If on the balance sheet date the Group is aware that events unaccounted for by the models have occurred that either aggravate or improve the future payment performance, adjustments are made on the basis of a qualified management estimate.

To mitigate the risk on individual exposures in the Group, collateral is accepted mainly by way of charges over physical assets, securities and rolling stock, of which mortgages on real property represent the most significant form of collateral. The valuation of collateral involves significant management estimates.

Reference is made to the notes on risk management for a more detailed description of impairment charges for loans and advances. Loans and advances constitute 56.8% of the Group's assets at the end of 2016.

Provisions for guarantees etc issued in connection with client exposures are made according to the same principles as those applying to the impairment of loans and advances and involve the same elements of uncertainty.

### Fair value of financial instruments

The Group measures a number of financial instruments at fair value, including all derivatives as well as shares and bonds.

Judgements are made in connection with the determination of the fair value of financial instruments in the following areas:

- Choice of valuation technique
- Determination of when available quoted prices do not represent fair value
- Calculation of fair value adjustments to take into account relevant risk factors such as credit risk, model risk and liquidity risk
- Assessment of which market parameters must be observed
- Estimate of future cash flows and required rates of return as regards unlisted shares.

## Note 2 Accounting estimates and judgements – continued

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Management estimates are based on an assessment in accordance with the Group's accounting policies and generally accepted valuation techniques.

As part of its operations the Group has acquired strategic holdings. Strategic holdings are measured at fair value on the basis of available information on trades in the relevant entity's holdings or alternatively a valuation model based on recognised methods and current market data, including a judgement of projected future earnings and cash flows. Measurement will also be influenced by co-ownership, trade and shareholders' agreements etc.

As regards financial instruments where measurement is only to a limited extent based on observable market data, measurement is affected by estimates. This is the case as regards for instance unlisted shares and certain bonds for which there is no active market. Measurement of illiquid bonds is affected by the assumption of the relevant credit spread.

Reference is made to Note 1 Accounting policies and to Note 39 Fair value disclosure for a more detailed description. Financial instruments measured on the basis of unobservable inputs represent DKK 1,557m, equivalent to 1.1% of the Group's assets at the end of 2016.

### Fair value of owner-occupied property

The return method is used to measure owner-occupied property at fair value.

Future cash flows are based on the Group's best estimate of the future income or loss from ordinary activities and required rate of return as regards each property taking into account factors such as location and condition. An external assessment supporting this estimate is obtained. A number of these assumptions and estimates have a significant impact on calculations and include parameters such as inflation, developments in rent, costs and required rates of return. Changes in these parameters as a result of changed market conditions affect the expected returns and consequently the fair value of owner-occupied property.

Reference is made to Note 25 Owner-occupied property.

### Acquisitions

All identifiable assets and liabilities are measured at fair value at the acquisition date. Determination of fair value of assets and liabilities in connection with acquisitions is subject to a number of significant estimates. Future cash flows from the entity acquired are estimated. The present value of future cash flows is affected by several factors, including discounting rates, real economic developments, customer developments and customer behaviour. Fair value is determined on the basis of for instance market value, present value, estimates or the consideration that an independent third party would pay or demand.

# Notes

## Note 3 Solvency

The Group uses the following methods and approaches to calculate solvency:

Credit risk outside trading portfolio, retail clients	Advanced IRB
Credit risk outside trading portfolio, corporate clients	Foundation IRB
Credit risk outside trading portfolio, financial counterparties	Standardised Approach
Counterparty risk	Mark-to-Market Method
Valuation of collateral	Financial Collateral Comprehensive Method
Market risk	Standardised Approach
Operational risk	Standardised Approach
Credit valuation adjustment	Standardised Approach

The Group's portfolio of equity investments primarily comprises strategic sector shares etc and in the Group's solvency calculation it is included under other exposures incl credit valuation adjustment.

Various types of collateral are used to mitigate the risk of the Group's lending portfolio. The most significant types of collateral comprise charges and guarantees.

Charges include deposit accounts and financial assets in the form of bonds and shares. The Group ensures that the items charged are separate from clients' right of disposal and that the charge is of legal validity. Valuation is ensured via the requirements of the Financial Collateral Comprehensive Method according to the Capital Requirements Regulation and Directive (CRR/CRD IV) which reduces the value of collateral on the basis of issuer, maturity and liquidity.

The Group has concluded netting agreements with all significant counterparties.

DKKm	Sydbank Group	
	2016	2015
Common Equity Tier 1 capital ratio	16.1	14.5
Tier 1 capital ratio	17.4	15.9
Capital ratio	19.2	17.6
<b>Total capital</b>		
Shareholders' equity	11,757	11,427
Prudent valuation	(65)	-
Proposed dividend	(746)	(813)
Intangible assets and capitalised deferred tax assets	(299)	(349)
Significant investments in financial sector	(434)	(413)
<b>Common Equity Tier 1 capital</b>	<b>10,213</b>	<b>9,852</b>
Additional Tier 1 capital	831	973
<b>Tier 1 capital</b>	<b>11,044</b>	<b>10,825</b>
Tier 2 capital	961	908
Difference between expected losses and accounting impairment charges	237	251
<b>Total capital</b>	<b>12,242</b>	<b>11,984</b>



### Note 3 Solvency – continued

DKKm	Sydbank Group	
	2016	2015
Credit risk	41,683	44,931
Market risk	8,075	8,876
Operational risk	8,025	8,173
Other exposures incl credit valuation adjustment	5,824	5,975
<b>Risk exposure amount</b>	<b>63,607</b>	<b>67,955</b>
<b>Pillar 1 capital requirement (8%)</b>	<b>5,089</b>	<b>5,436</b>

### Note 4 Leverage ratio

DKKm	Sydbank Group		Sydbank A/S	
	2016	2015	2016	2015
<b>Exposure for computation of leverage ratio</b>				
Total assets	146,686	142,742	148,949	144,880
Of which pooled assets	(13,817)	(12,000)	(13,817)	(12,000)
Correction derivatives etc	2,801	1,703	2,801	1,703
Guarantees etc	11,385	10,498	11,385	10,498
Undrawn credit commitments etc	11,338	12,479	11,351	12,494
Other adjustments	(482)	(1,850)	(456)	(1,839)
<b>Total</b>	<b>157,911</b>	<b>153,572</b>	<b>160,213</b>	<b>155,736</b>
Tier 1 capital – current (transitional rules)	11,044	10,825	11,068	10,872
Tier 1 capital – fully loaded	10,213	9,852	10,237	9,899
Leverage ratio (%) – current (transitional rules)	7.0	7.0	6.9	7.0
Leverage ratio (%) – fully loaded	6.5	6.4	6.4	6.4

### Note 5 Segment reporting

#### Operating segments

The Group's segment statements are divided into the following business units: Banking, Asset Management, Sydbank Markets, Treasury and Other.

**Banking** serves all types of retail and corporate clients.

**Asset Management** primarily comprises the Bank's advisory-related income from clients and investment funds.

**Sydbank Markets** comprises trading income as well as a share of the income from clients with decentral affiliation calculated on the basis of the market price thereof. The share represents the payment by Banking for Sydbank Markets' facilities, including advisory services and administration.

**Treasury** comprises the Group's return on positions handled by Treasury, including liquidity allocation.

**Other** includes non-recurring items, costs to the Group Executive Management etc as well as return on strategic shareholdings that are not allocated to Banking or Sydbank Markets.

Inter-segment transactions are settled on an arm's length basis. Centrally incurred costs are allocated to the business units in accordance with their estimated proportionate share of overall activities.

Surplus liquidity is settled primarily at short-term money market rates whereas other balances are settled on an arm's length basis.

# Notes

## Note 5 Segment reporting – continued

Sydbank Group

DKKm	Banking	Asset Management	Sydbank Markets	Treasury	Other	Total
<b>Operating segments 2016</b>						
Core income	3,884	220	94	-	-	4,198
Trading income	-	-	237	-	-	237
<b>Total income</b>	<b>3,884</b>	<b>220</b>	<b>331</b>	<b>-</b>	<b>-</b>	<b>4,435</b>
Costs, core earnings	2,364	74	90	-	62	2,590
Impairment of loans and advances etc	87	-	-	-	-	87
<b>Core earnings</b>	<b>1,433</b>	<b>146</b>	<b>241</b>	<b>-</b>	<b>(62)</b>	<b>1,758</b>
Investment portfolio earnings	2	-	-	102	-	104
<b>Profit before non-recurring items</b>	<b>1,435</b>	<b>146</b>	<b>241</b>	<b>102</b>	<b>(62)</b>	<b>1,862</b>
Non-recurring items, net	-	-	-	-	7	7
<b>Profit before tax</b>	<b>1,435</b>	<b>146</b>	<b>241</b>	<b>102</b>	<b>(55)</b>	<b>1,869</b>
Depreciation and impairment of property, plant and equipment	107	2	5	-	1	115
Full-time staff at 31 Dec	1,883	44	83	4	23	2,037
<b>Operating segments 2015</b>						
Core income	4,034	183	112	-	-	4,329
Trading income	-	-	215	-	-	215
<b>Total income</b>	<b>4,034</b>	<b>183</b>	<b>327</b>	<b>-</b>	<b>-</b>	<b>4,544</b>
Costs, core earnings	2,461	61	94	-	59	2,675
Impairment of loans and advances etc	316	-	-	-	-	316
<b>Core earnings</b>	<b>1,257</b>	<b>122</b>	<b>233</b>	<b>-</b>	<b>(59)</b>	<b>1,553</b>
Investment portfolio earnings	2	-	-	(82)	-	(80)
<b>Profit before non-recurring items</b>	<b>1,259</b>	<b>122</b>	<b>233</b>	<b>(82)</b>	<b>(59)</b>	<b>1,473</b>
Non-recurring items, net	-	-	-	-	-	-
<b>Profit before tax</b>	<b>1,259</b>	<b>122</b>	<b>233</b>	<b>(82)</b>	<b>(59)</b>	<b>1,473</b>
Depreciation and impairment of property, plant and equipment	90	2	4	-	1	97
Full-time staff at 31 Dec	1,899	38	78	4	25	2,044

Under IFRS, revenues from transactions with a single client of 10% or more must be disclosed. The Sydbank Group has no such clients.

The Sydbank Group's internal financial reporting is not made on the basis of products and services. Reference is made to notes 7 and 10 for the distribution of interest income as well as fee and commission income.

Note 5 Segment reporting – continued

Sydbank Group

DKKm	2016		2015	
	Total income	Assets	Total income	Assets
Geographical segments				
Denmark	4,239	1,462	4,359	1,508
Abroad	196	58	185	59
<b>Total</b>	<b>4,435</b>	<b>1,520</b>	<b>4,544</b>	<b>1,567</b>

Income from external clients is broken down by organisational affiliation within the Sydbank Group. Assets, comprising only intangible assets, land and buildings, other property, plant and equipment as well as holdings in associates, are broken down by location.

The geographical breakdown of the Group's income and assets is disclosed in compliance with IFRS and does not reflect the Group's management structure. Management is of the opinion that operating segmentation provides a more informative description of the Group's activities.

Note 6 Correlation between the Group's performance measures and the income statement according to IFRS Sydbank Group

DKKm	Core income	Trading income	Costs, core earnings	Impairment of loans and advances etc	2016			Profit before tax
					Core earnings	Investment portfolio earnings	Non-recurring items, net	
<b>2016</b>								
Net interest and fee income	4,060	(63)			3,997	5		4,002
Market value adjustments	105	300		7	412	110	31	553
Other operating income	31				31			31
<b>Income</b>	<b>4,196</b>	<b>237</b>		<b>7</b>	<b>4,440</b>	<b>115</b>	<b>31</b>	<b>4,586</b>
Staff costs and administrative expenses			(2,456)		(2,456)	(7)	(24)	(2,487)
Amortisation and depreciation and impairment of intangible assets and property, plant and equipment			(115)		(115)			(115)
Other operating expenses			(19)		(19)			(19)
Impairment of loans and advances etc				(94)	(94)	(4)		(98)
Profit/(Loss) on holdings in associates and subsidiaries	2				2			2
<b>Profit before tax</b>	<b>4,198</b>	<b>237</b>	<b>(2,590)</b>	<b>(87)</b>	<b>1,758</b>	<b>104</b>	<b>7</b>	<b>1,869</b>
<b>2015</b>								
<b>Income</b>	<b>4,324</b>	<b>215</b>		<b>(5)</b>	<b>4,534</b>	<b>(73)</b>		<b>4,461</b>
Staff costs and administrative expenses			(2,448)		(2,448)	(7)		(2,455)
Amortisation and depreciation and impairment of intangible assets and property, plant and equipment			(97)		(97)			(97)
Other operating expenses			(130)		(130)			(130)
Impairment of loans and advances etc				(311)	(311)			(311)
Profit/(Loss) on holdings in associates and subsidiaries	5				5			5
<b>Profit before tax</b>	<b>4,329</b>	<b>215</b>	<b>(2,675)</b>	<b>(316)</b>	<b>1,553</b>	<b>(80)</b>	<b>-</b>	<b>1,473</b>

## Notes

Note 7 Interest income	Sydbank Group		Sydbank A/S	
	2016	2015	2016	2015
DKKm				
Reverse transactions with credit institutions and central banks	(9)	(32)	(9)	(32)
Amounts owed by credit institutions and central banks	(19)	(8)	(19)	(8)
Reverse loans and advances	(24)	(24)	(24)	(24)
Loans and advances and other amounts owed	2,580	2,732	2,583	2,736
Bonds	281	289	281	288
Total derivatives	(141)	(119)	(141)	(119)
comprising:				
Foreign exchange contracts	67	93	67	93
Interest rate contracts	(208)	(212)	(208)	(212)
Other contracts	0	0	0	0
Other interest income	6	8	6	8
<b>Total</b>	<b>2,674</b>	<b>2,846</b>	<b>2,677</b>	<b>2,849</b>
Fair value, designated at initial recognition	(33)	(56)	(33)	(56)
Fair value, held for trading	140	170	140	169
Assets recognised at amortised cost	2,567	2,732	2,570	2,736
<b>Total</b>	<b>2,674</b>	<b>2,846</b>	<b>2,677</b>	<b>2,849</b>

The Group's cash resources are primarily placed in Danish mortgage bonds. The interest rate risk concerning these positions has been reduced via derivatives. As a result the Group's external income statement is affected in terms of interest income and the market value adjustment of bonds and derivatives. The same applies to the Group's position-taking as regards bonds as well as shares. The breakdown by income statement item does not disclose income independently and consequently these items must be regarded as one as they are in segment reporting (note 5) as well as in the Group's financial review, which also takes funding of the positions into account.

### Note 8 Interest expense

Repo transactions with credit institutions and central banks	(35)	(41)	(35)	(41)
Credit institutions and central banks	39	22	39	22
Repo deposits	(6)	(4)	(6)	(4)
Deposits and other debt	193	265	293	266
Bonds issued	55	60	55	60
Subordinated capital	34	35	34	35
Other interest expense	1	5	1	5
<b>Total</b>	<b>281</b>	<b>342</b>	<b>381</b>	<b>343</b>
Fair value, designated at initial recognition	(41)	(45)	(41)	(45)
Liabilities recognised at amortised cost	322	387	422	388
<b>Total</b>	<b>281</b>	<b>342</b>	<b>381</b>	<b>343</b>

### Note 9 Dividends on shares

Fair value, designated at initial recognition	43	33	43	33
Fair value, held for trading	4	31	4	31
<b>Total</b>	<b>47</b>	<b>64</b>	<b>47</b>	<b>64</b>

Note 10 Fee and commission income	Sydbank Group		Sydbank A/S	
	2016	2015	2016	2015
<b>DKKm</b>				
Securities trading and custody accounts	1,024	1,029	890	911
Payment services	307	297	307	297
Loan fees	118	159	118	159
Guarantee commission	115	110	115	110
Other fees and commission	338	307	338	307
Total fee and commission income	1,902	1,902	1,768	1,784
Total fee and commission expense	340	300	276	238
<b>Net fee and commission income</b>	<b>1,562</b>	<b>1,602</b>	<b>1,492</b>	<b>1,546</b>

#### Note 11 Market value adjustments

Other loans and advances and amounts owed at fair value	1	2	1	2
Bonds	278	(197)	278	(196)
Shares etc	161	128	161	128
Investment property	0	(1)	0	(1)
Foreign exchange	195	213	195	213
Derivatives	(81)	106	(81)	106
Assets related to pooled plans	636	163	636	163
Deposits in pooled plans	(636)	(163)	(636)	(163)
Other assets/liabilities	(1)	0	(1)	0
<b>Total</b>	<b>553</b>	<b>251</b>	<b>553</b>	<b>252</b>
Fair value, held for trading, trading portfolio	472	165	472	166
Fair value, designated at initial recognition, equity investments	81	86	81	86
<b>Total</b>	<b>553</b>	<b>251</b>	<b>553</b>	<b>252</b>

The Group's cash resources are primarily placed in Danish mortgage bonds. The interest rate risk concerning these positions has been reduced via derivatives. As a result the Group's external income statement is affected in terms of interest income and the market value adjustment of bonds and derivatives. The same applies to the Group's position-taking as regards bonds as well as shares. The break-down by income statement item does not disclose income independently and consequently these items must be regarded as one as they are in segment reporting (note 5) as well as in the Group's financial review, which also takes funding of the positions into account.

#### Note 12 Other operating income

Rental income – real property	14	17	14	17
Other operating income	17	23	16	23
<b>Total</b>	<b>31</b>	<b>40</b>	<b>30</b>	<b>40</b>

## Notes

Note 13 Staff costs and administrative expenses DKKm	Sydbank Group		Sydbank A/S	
	2016	2015	2016	2015
<b>Salaries and remuneration</b>				
Group Executive Management	15	14	15	14
Board of Directors	6	5	6	5
Shareholders' Committee	3	2	3	2
<b>Total</b>	<b>24</b>	<b>21</b>	<b>24</b>	<b>21</b>
<b>Staff costs</b>				
Wages and salaries	1,207	1,247	1,192	1,232
Pensions	121	128	120	127
Social security contributions	15	16	15	16
Payroll tax	152	140	150	138
<b>Total</b>	<b>1,495</b>	<b>1,531</b>	<b>1,477</b>	<b>1,513</b>
<b>Other administrative expenses</b>				
IT	626	533	612	517
Rent etc	121	118	127	136
Marketing and entertainment expenses	72	82	59	73
Other costs	149	170	132	153
<b>Total</b>	<b>968</b>	<b>903</b>	<b>930</b>	<b>879</b>
<b>Total</b>	<b>2,487</b>	<b>2,455</b>	<b>2,431</b>	<b>2,413</b>
<b>Audit fees</b>				
Statutory audit	1	1	1	1
Assurance engagements	1	1	1	1
Tax consultancy	0	0	0	0
Fees for other services	0	0	0	0
<b>Total</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>
In addition to fees paid to the independent auditor, operating expenses have been incurred as regards the Group's Internal Audit.				
<b>Staff</b>				
Average number of staff (full-time equivalent)	2,078	2,154	2,058	2,134

Note 13 Staff costs and administrative expenses – continued

Sydbank Group

DKK thousand	Directors' remuneration	Committee fee	2016 Total	2015 Total
<b>Directors' remuneration</b>				
Torben Nielsen (Chairman as of 12 March 2015)	873	359	1,232	846
Peder Damgaard (Vice-Chairman as of 12 March 2015)	536	231	767	582
Svend Erik Busk	313	128	441	390
Alex Slot Hansen	313	54	367	316
Erik Bank Lauridsen (resigned as of 17 March 2016)	68	32	100	397
Janne Moltke-Leth (member as of 17 March 2016)	247	40	287	-
Lars Mikkjelgaard-Jensen (member as of 12 March 2015)	313	96	409	270
Frank Møller Nielsen (member as of 12 March 2015)	313	82	395	259
Jacob Chr. Nielsen	313	158	471	335
Susanne Beck Nielsen (passed away on 12 January 2015)	-	-	-	65
Jarl Oxlund	313	96	409	335
Bo Normann Rasmussen (member as of 12 March 2015)	313	96	409	270
Anders Thoustrup (resigned as of 12 March 2015)	-	-	-	211
Margrethe Weber	313	-	313	264
<b>Total</b>	<b>4,228</b>	<b>1,372</b>	<b>5,600</b>	<b>4,540</b>
<b>Of which committee fees</b>				
Audit Committee (4 members) – of which fee to the chairman DKK 128,000			415	385
Risk Committee (4 members) – of which fee to the chairman DKK 128,000			415	385
Remuneration Committee (4 members) – of which fee to the chairman DKK 53,000			213	209
Nomination Committee (4 members) – of which fee to the chairman DKK 82,000			329	303

Sydbank's Board of Directors receive fixed remuneration.

In addition board committee members receive a fixed committee fee.

## Notes

### Note 13 Staff costs and administrative expenses – continued

Sydbank Group

DKKm	Karen Frøsig	Bjarne Larsen	Jan Svarre
<b>Remuneration of the Group Executive Management</b>			
<b>2016</b>			
Fixed remuneration	6.0	4.7	4.7
Of which fees received in connection with directorships	(0.4)	-	(0.1)
<b>Group costs</b>	<b>5.6</b>	<b>4.7</b>	<b>4.6</b>
<b>2015</b>			
Fixed remuneration	5.6	4.4	4.4
Of which fees received in connection with directorships	(0.4)	-	-
<b>Group costs</b>	<b>5.2</b>	<b>4.4</b>	<b>4.4</b>

The Group Executive Management receives no variable remuneration.

#### Group Executive Management – severance terms

##### Karen Frøsig, Bjarne Larsen and Jan Svarre

The notice of termination is 6 and 12 months for the Group Executive Management member and the Bank, respectively. In respect of dismissal by the Bank, the Group Executive Management member is entitled to receive severance pay equal to 12 months' salary.

Further details about the Bank's remuneration policy are available at the Bank's website [sydbank.dk/omsydbank/organisation/loenpolitik](http://sydbank.dk/omsydbank/organisation/loenpolitik) (in Danish only).

DKKm	Sydbank Group		Sydbank A/S	
	2016	2015	2016	2015
Remuneration to material risk takers and control functions				
Fixed remuneration	39.3	38.5	37.4	37.0
Variable remuneration	1.0	0.8	1.0	0.8
<b>Total</b>	<b>40.3</b>	<b>39.3</b>	<b>38.4</b>	<b>37.8</b>
Number of full-time staff (average)	30.6	30.6	29.6	29.8

Material risk takers and control functions only receive variable remuneration below the minimum threshold, cf the Danish executive order on remuneration.



Note 14 Impairment of loans and advances etc	Sydbank Group		Sydbank A/S	
	2016	2015	2016	2015
<b>DKKm</b>				
<b>Impairment of loans and advances recognised in the income statement</b>				
Impairment and provisions	(77)	222	(77)	222
Write-offs	342	200	342	200
Recovered from debt previously written off	167	111	167	111
<b>Impairment of loans and advances etc</b>	<b>98</b>	<b>311</b>	<b>98</b>	<b>311</b>
<b>Impairment and provisions at 31 Dec (allowance account)</b>				
Individual impairment and provisions	2,904	3,687	2,904	3,687
Collective impairment and provisions	385	495	385	495
<b>Impairment and provisions at 31 Dec</b>	<b>3,289</b>	<b>4,182</b>	<b>3,289</b>	<b>4,182</b>
<b>Individual impairment of loans and advances and provisions for guarantees</b>				
Impairment and provisions at 1 Jan	3,687	4,111	3,687	4,111
Exchange rate adjustment	0	0	0	0
New individual impairment charges	1,206	1,223	1,206	1,223
Reversal of individual impairment charges	998	984	998	984
Other movements	0	-	0	-
Impairment charges previously recorded, now finally written off	991	663	991	663
<b>Impairment and provisions at 31 Dec</b>	<b>2,904</b>	<b>3,687</b>	<b>2,904</b>	<b>3,687</b>
Individual impairment of loans and advances	2,778	3,569	2,778	3,569
Individual provisions for guarantees	126	118	126	118
<b>Impairment and provisions at 31 Dec</b>	<b>2,904</b>	<b>3,687</b>	<b>2,904</b>	<b>3,687</b>
<b>Collective impairment of loans and advances and provisions for guarantees</b>				
Impairment and provisions at 1 Jan	495	301	495	301
Impairment and provisions during the year	(110)	194	(110)	194
<b>Impairment and provisions at 31 Dec</b>	<b>385</b>	<b>495</b>	<b>385</b>	<b>495</b>
Sum of loans and advances and amounts owed subject to collective impairment and provisions	12,861	6,810	12,861	6,810
Collective impairment and provisions	385	495	385	495
<b>Loans and advances and amounts owed after collective impairment and provisions</b>	<b>12,476</b>	<b>6,315</b>	<b>12,476</b>	<b>6,315</b>
<b>Individual impairment of loans and advances subject to objective evidence of impairment</b>				
Balance before impairment of individually impaired loans and advances	4,862	6,273	4,862	6,273
Impairment of individually impaired loans and advances	2,778	3,569	2,778	3,569
<b>Balance after impairment of individually impaired loans and advances</b>	<b>2,084</b>	<b>2,704</b>	<b>2,084</b>	<b>2,704</b>

Interest recognised concerning individually and collectively impaired loans and advances represents DKK 577m for 2016 (2015: DKK 455m).

# Notes

## Note 14 Impairment of loans and advances etc – continued

DKKm	Sydbank Group			
	Allowance account		Impairment of loans/ advances etc	
	2016	2015	2016	2015
<b>Industry breakdown of the Group's allowance account and impairment of loans and advances recognised in the income statement</b>				
<b>Corporate lending</b>				
Agriculture, hunting, forestry and fisheries	666	1,027	231	111
Manufacturing and extraction of raw materials	222	183	20	(4)
Energy supply etc	9	32	(2)	5
Building and construction	73	102	(1)	7
Trade	310	434	14	14
Transportation, hotels and restaurants	132	64	37	2
Information and communication	15	20	(1)	(3)
Finance and insurance	131	216	(18)	(40)
Real property	309	422	(40)	10
Other corporate lending	157	182	6	9
<b>Total corporate lending</b>	<b>2,024</b>	<b>2,682</b>	<b>246</b>	<b>111</b>
Public authorities	-	-	-	-
Retail clients	754	887	(38)	6
Collective impairment charges	385	495	(110)	194
Provisions for guarantees	126	118	-	-
<b>Total</b>	<b>3,289</b>	<b>4,182</b>	<b>98</b>	<b>311</b>

## Note 15 Profit/(Loss) on holdings in associates and subsidiaries

DKKm	Sydbank Group		Sydbank A/S	
	2016	2015	2016	2015
Profit/(Loss) on holdings in associates etc	2	5	2	5
Profit/(Loss) on holdings in subsidiaries	-	-	69	(28)
<b>Total</b>	<b>2</b>	<b>5</b>	<b>71</b>	<b>(23)</b>

Note 16 Tax	Sydbank Group		Sydbank A/S	
	2016	2015	2016	2015
<b>DKKm</b>				
Tax calculated on income for the year	329	264	329	264
Deferred tax	64	68	34	52
Adjustment of prior year tax charges	4	(7)	4	(7)
<b>Total</b>	<b>397</b>	<b>325</b>	<b>367</b>	<b>309</b>
<b>Effective tax rate</b>				
Current tax rate of Sydbank	22.0	23.5	22.0	23.5
Permanent differences	(1.0)	(1.1)	(2.3)	(2.0)
Adjustment of prior year tax charges	0.3	(0.3)	0.3	(0.3)
<b>Effective tax rate</b>	<b>21.3</b>	<b>22.1</b>	<b>20.0</b>	<b>21.2</b>
<b>Deferred tax</b>				
Deferred tax at 1 Jan	44	(24)	113	62
Deferred tax for the year recognised in profit for the year	64	68	34	51
<b>Deferred tax at 31 Dec, net</b>	<b>108</b>	<b>44</b>	<b>147</b>	<b>113</b>
Deferred tax assets	57	83	16	14
Deferred tax liabilities	165	127	163	127
<b>Deferred tax at 31 Dec, net</b>	<b>108</b>	<b>44</b>	<b>147</b>	<b>113</b>

# Notes

## Note 16 Tax - continued

Sydbank Group

DKKm	2016			2015		
	1 Jan	Recognised in profit for the year	31 Dec	1 Jan	Recognised in profit for the year	31 Dec
<b>Deferred tax</b>						
Loans and advances at amortised cost	137	33	170	118	19	137
Land and buildings	(1)	3	2	2	(3)	(1)
Property, plant and equipment	(18)	0	(18)	(21)	3	(18)
Intangible assets	(10)	14	4	(30)	20	(10)
Other assets	13	(4)	9	4	9	13
Provisions	(1)	(1)	(2)	(1)	0	(1)
Other liabilities	(33)	(2)	(35)	(47)	14	(33)
Capitalised losses, jointly taxed income	(43)	21	(22)	(49)	6	(43)
<b>Deferred tax at 31 Dec, net</b>	<b>44</b>	<b>64</b>	<b>108</b>	<b>(24)</b>	<b>68</b>	<b>44</b>

## Note 17 Amounts owed by credit institutions and central banks

Sydbank Group

Sydbank A/S

DKKm	2016		2015	
	Sydbank Group	Sydbank A/S	Sydbank Group	Sydbank A/S
Amounts owed at notice by central banks	4,316	-	4,316	-
Amounts owed by credit institutions	2,665	4,274	2,661	4,267
<b>Total</b>	<b>6,981</b>	<b>4,274</b>	<b>6,977</b>	<b>4,267</b>
On demand	940	1,837	936	1,830
3 months or less	6,033	2,407	6,033	2,407
Over 3 months not exceeding 1 year	8	25	8	25
Over 1 year not exceeding 5 years	0	1	0	1
Over 5 years	0	4	0	4
<b>Total</b>	<b>6,981</b>	<b>4,274</b>	<b>6,977</b>	<b>4,267</b>
Of which reverse transactions	1,652	1,062	1,652	1,062

Note 18 Loans and advances	Sydbank Group		Sydbank A/S	
	2016	2015	2016	2015
<b>DKKm</b>				
On demand	13,926	14,465	14,094	14,629
3 months or less	7,327	11,568	7,327	11,568
Over 3 months not exceeding 1 year	24,489	24,722	24,489	24,722
Over 1 year not exceeding 5 years	15,823	15,396	15,822	15,396
Over 5 years	21,718	18,307	21,718	18,307
<b>Total</b>	<b>83,283</b>	<b>84,458</b>	<b>83,450</b>	<b>84,622</b>
Of which reverse transactions (loans and advances at fair value)	6,092	10,183	6,092	10,183

#### Loans and advances and guarantees by sector and industry (%)

Agriculture, hunting, forestry and fisheries	5.3	5.5	5.3	5.5
Manufacturing and extraction of raw materials	8.5	8.1	8.5	8.1
Energy supply etc	2.9	3.7	2.9	3.7
Building and construction	4.0	3.5	4.0	3.5
Trade	12.9	13.2	12.9	13.1
Transportation, hotels and restaurants	3.7	3.5	3.7	3.5
Information and communication	0.4	0.3	0.4	0.3
Finance and insurance	12.4	17.0	12.4	17.1
Real property	7.0	7.4	7.2	7.5
Other corporate lending	4.2	3.6	4.1	3.6
<b>Total corporate lending</b>	<b>61.3</b>	<b>65.8</b>	<b>61.4</b>	<b>65.9</b>
Public authorities	0.8	0.9	0.8	0.9
Retail clients	37.9	33.3	37.8	33.2
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

#### Collateral received and types of collateral

Loans and advances at fair value	6,092	10,183	6,092	10,183
Loans and advances at amortised cost	77,191	74,275	77,358	74,439
Guarantees	11,385	10,498	11,385	10,498
Credit exposure for accounting purposes	94,668	94,956	94,835	95,120
Collateral value	51,016	50,254	51,016	50,254
<b>Total unsecured</b>	<b>43,652</b>	<b>44,702</b>	<b>43,819</b>	<b>44,866</b>

#### Types of collateral

Real property	20,532	16,534	20,532	16,534
Financial collateral	11,708	16,410	11,708	16,410
Leased assets, mortgages etc	5,096	4,624	5,096	4,624
Floating charges, operating equipment etc	6,366	6,404	6,366	6,404
Guarantees	1,294	1,047	1,294	1,047
Other items of collateral	233	452	233	452
<b>Total collateral used</b>	<b>45,229</b>	<b>45,471</b>	<b>45,229</b>	<b>45,471</b>
Particularly secured transactions (mortgage guarantees)	5,787	4,783	5,787	4,783
<b>Total</b>	<b>51,016</b>	<b>50,254</b>	<b>51,016</b>	<b>50,254</b>

In the event that the Group uses collateral that is not immediately convertible into liquid holdings, it is the Group's policy to dispose of such assets as quickly as possible. Real property is handed over to an estate agent. Repossessed leased equipment is sold as quickly as possible. In 2016 repossessed equipment as well as real property taken over in connection with non-performing exposures amounted to DKK 62m (2015: DKK 32m). Leased assets are assessed and depreciated on an ongoing basis. As a result the calculated collateral as regards the Group's leasing activities will decline during periods of falling prices of leased assets.

# Notes

## Note 18 Loans and advances – continued

Sydbank Group

DKKm	2016				2015			
	Loans/ advances	Guarantees	Collateral value	Unsecured	Loans/ advances	Guarantees	Collateral value	Unsecured
<b>Collateral by rating category</b>								
<b>Rating category</b>								
1	14,206	2,185	12,706	3,685	11,583	1,994	9,744	3,833
2	21,714	2,219	12,759	11,174	24,688	2,472	16,279	10,881
3	19,504	2,114	10,328	11,290	18,815	1,747	9,237	11,325
4	11,139	878	4,805	7,212	11,279	1,107	4,538	7,848
5	6,028	554	2,807	3,775	6,253	535	3,149	3,639
6	3,434	309	1,581	2,162	3,589	359	1,651	2,297
7	1,235	149	489	895	1,119	113	505	727
8	664	164	345	483	677	91	335	433
9	5,261	332	2,142	3,451	6,647	423	2,597	4,473
Default	1,655	180	767	1,068	2,205	167	763	1,609
NR/STD	1,606	2,301	2,287	1,620	1,667	1,490	1,456	1,701
<b>Total</b>	<b>86,446</b>	<b>11,385</b>	<b>51,016</b>	<b>46,815</b>	<b>88,522</b>	<b>10,498</b>	<b>50,254</b>	<b>48,766</b>
Individual impairment of loans and advances	2,778			2,778	3,569			3,569
Collective impairment of loans and advances	385			385	495			495
<b>Total</b>	<b>83,283</b>	<b>11,385</b>	<b>51,016</b>	<b>43,652</b>	<b>84,458</b>	<b>10,498</b>	<b>50,254</b>	<b>44,702</b>

Sydbank Group

DKKm	2016			2015		
	Retail	Corporate	Total	Retail	Corporate	Total
<b>Past due amounts not impaired*</b>						
0-30 days	43	39	82	46	54	100
31-60 days	2	1	3	1	1	2
61-90 days	0	0	0	1	1	2
<b>Total</b>	<b>45</b>	<b>40</b>	<b>85</b>	<b>48</b>	<b>56</b>	<b>104</b>
<b>Rating category</b>						
1	0	3	3	0	2	2
2	13	3	16	13	18	31
3	11	6	17	11	7	18
4	9	9	18	10	4	14
5	4	5	9	3	8	11
6	2	5	7	5	4	9
7	1	1	2	1	1	2
8	1	0	1	0	1	1
9	1	8	9	1	11	12
NR/STD	3	0	3	4	0	4
<b>Total</b>	<b>45</b>	<b>40</b>	<b>85</b>	<b>48</b>	<b>56</b>	<b>104</b>

\* Past due amounts concerning loans and advances etc not subject to individual impairment. Loans and advances and amounts owed payable beyond 90 days are treated as impaired.

As shown above a limited share of past due amounts concerns high credit risk clients.

Note 18 Loans and advances – continued

Sydbank Group

DKKm				2016 Loans/ advances neither impaired nor past due				2015 Loans/ advances neither impaired nor past due
	Loans/ advances	Impaired loans/ advances	Past due loans/ advances		Loans/ advances	Impaired loans/ advances	Past due loans/ advances	
<b>Loans and advances not impaired, by rating category</b>								
1	12,026		3	12,023	10,570		2	10,568
2	19,955		16	19,939	17,192		31	17,161
3	17,351		17	17,334	17,141		18	17,123
4	11,139		18	11,121	11,279		14	11,265
5	6,028		9	6,019	6,253		11	6,242
6	3,434		7	3,427	3,589		9	3,580
7	1,235		2	1,233	1,119		2	1,117
8	664		1	663	677		1	676
9	5,261	3,637	9	1,615	6,647	4,523	12	2,112
Default	1,655	1,225	0	430	2,205	1,750	0	455
NR/STD	1,606		3	1,603	1,667		4	1,663
	80,354	4,862	85	75,407	78,339	6,273	104	71,962
Impairment charges	3,163	2,778		385	4,064	3,569		495
<b>Total</b>	<b>77,191</b>	<b>2,084</b>	<b>85</b>	<b>75,022</b>	<b>74,275</b>	<b>2,704</b>	<b>104</b>	<b>71,467</b>

Sydbank Group

DKKm			2016 Net investments			2015 Net investments
	Gross investments	Unearned interest		Gross investments	Unearned interest	
<b>Lease payment receivables – finance leases</b>						
1 year or less	1,528	99	1,429	1,375	97	1,278
Over 1 year not exceeding 5 years	3,595	158	3,437	3,052	150	2,902
Over 5 years	423	11	412	328	9	319
<b>Total</b>	<b>5,546</b>	<b>268</b>	<b>5,278</b>	<b>4,755</b>	<b>256</b>	<b>4,499</b>

Lease payment receivables comprise receivables on leasing of various operating equipment under non-cancellable leases. The leases are fixed-rate and floating-rate leases in foreign and Danish currencies.

Loans and advances at amortised cost include finance lease payment receivables of DKK 5,278m at year-end 2016 (2015: DKK 4,499m).

Impairment charges for uncollectible lease payment receivables represent DKK 0m for 2016 (2015: DKK 0m).

## Notes

### Note 18 Loans and advances – continued

Sydbank Group

DKKm	2016			2015		
	Loans/ advances before impairment charges	Individual impairment charges	Book value	Loans/ advances before impairment charges	Individual impairment charges	Book value
<b>Non-performing loans and advances</b>						
Impaired non-defaulted loans and advances	3,637	1,863	1,774	4,523	2,306	2,217
Impaired defaulted loans and advances	1,225	915	310	1,750	1,263	487
<b>Individually impaired loans and advances</b>	<b>4,862</b>	<b>2,778</b>	<b>2,084</b>	<b>6,273</b>	<b>3,569</b>	<b>2,704</b>
Non-impaired defaulted loans and advances	430		430	455		455
Non-impaired loans and advances in arrears > 90 days	5		5	8		8
<b>Total</b>	<b>5,297</b>	<b>2,778</b>	<b>2,519</b>	<b>6,736</b>	<b>3,569</b>	<b>3,167</b>

In the table above loans and advances are defined as non-performing if they meet at least one of the following criteria:

- An individual impairment charge has been registered as regards the loan/advance
- It is considered unlikely that the debtor will fully meet his payment obligations without realising collateral
- The loan/advance has been in arrears for more than 90 days where the amount exceeds DKK 1,000 and at the same time represents more than 1% of the loan/advance. The loan/advance is only included here if it is not included in one of the other items.

Sydbank Group

DKKm	2016			2015		
	Loans/ advances and guarantees before impairment charges	Individual impair- ment charges	Book value	Loans/ advances and guarantees before impairment charges	Individual impair- ment charges	Book value
<b>Forborne loans and advances and guarantees</b>						
Impaired non-defaulted loans and advances and guarantees	187	105	82	271	130	141
Impaired defaulted loans and advances and guarantees	237	181	56	366	265	101
<b>Individually impaired loans and advances and guarantees</b>	<b>424</b>	<b>286</b>	<b>138</b>	<b>637</b>	<b>395</b>	<b>242</b>
Non-impaired non-defaulted loans and advances and guarantees	130		130	115		115
Non-impaired defaulted loans and advances and guarantees	589		589	211		211
<b>Total</b>	<b>1,143</b>	<b>286</b>	<b>857</b>	<b>963</b>	<b>395</b>	<b>568</b>
<b>Due to financial difficulties:</b>						
- Interest rates have been reduced	467	133	334	615	233	382
- Interest-only terms have been granted	124	58	66	152	68	84
- The debt cannot be refinanced on usual terms	443	59	384	83	46	37
- Other special terms have been granted	109	36	73	113	48	65
<b>Total</b>	<b>1,143</b>	<b>286</b>	<b>857</b>	<b>963</b>	<b>395</b>	<b>568</b>

Forborne loans and advances and guarantees are defined as loans and advances and guarantees where:

- there has been a change in loan terms that would not have been granted if the borrower had not been experiencing financial difficulties
- there has been a complete or partial refinancing of a loan contract that would not have been carried out if the borrower had not been experiencing financial difficulties.

It should be noted that individually impaired loans and advances subject to forbearance measures are also included in non-performing loans and advances.



Note 19 Bonds at fair value DKKm	Sydbank Group		Sydbank A/S	
	2016	2015	2016	2015
Mortgage bonds	24,155	23,661	24,123	23,629
Government bonds	1,891	2,434	1,891	2,434
Other bonds	285	267	285	267
<b>Total</b>	<b>26,331</b>	<b>26,362</b>	<b>26,299</b>	<b>26,330</b>

#### Government bonds - by country

Denmark	1,891	2,434	1,891	2,434
<b>Total</b>	<b>1,891</b>	<b>2,434</b>	<b>1,891</b>	<b>2,434</b>

#### Note 20 Shares etc

Listed on Nasdaq Copenhagen A/S	262	223	262	223
Listed on other exchanges	1	4	1	4
Unlisted shares recognised at fair value	1,575	1,509	1,575	1,508
<b>Total</b>	<b>1,838</b>	<b>1,736</b>	<b>1,838</b>	<b>1,735</b>

Trading portfolio	231	198	231	197
Portfolio of equity investments	1,607	1,538	1,607	1,538
<b>Total</b>	<b>1,838</b>	<b>1,736</b>	<b>1,838</b>	<b>1,735</b>

#### Note 21 Holdings in associates etc

Carrying amount at 1 Jan	163	168	163	168
of which credit institutions	-	-	-	-
Cost at 1 Jan	151	159	151	159
Exchange rate adjustment	0	0	0	0
Additions	-	-	-	-
Disposals	1	8	1	8
Cost at 31 Dec	150	151	150	151
Revaluations and impairment charges at 1 Jan	12	9	12	9
Dividend	(2)	(2)	(2)	(2)
Revaluations and impairment charges for the year	2	5	2	5
Reversal of revaluations and impairment charges	-	-	-	-
Revaluations and impairment charges at 31 Dec	12	12	12	12
<b>Carrying amount at 31 Dec</b>	<b>162</b>	<b>163</b>	<b>162</b>	<b>163</b>

## Notes

Note 22 Holdings in subsidiaries	Sydbank A/S	
DKKm	2016	2015
Carrying amount at 1 Jan	2,281	646
Cost at 1 Jan	2,712	1,026
Exchange rate adjustment	1	43
Additions	-	1,645
Disposals	-	2
Cost at 31 Dec	2,713	2,712
Revaluations and impairment charges at 1 Jan	(431)	(380)
Exchange rate adjustment	(1)	(17)
Profit/(Loss)	69	(28)
Dividend	-	-
Other capital movements	1	(6)
Revaluations and impairment charges for the year	-	-
Reversal of revaluations and impairment charges	-	-
Revaluations and impairment charges at 31 Dec	(362)	(431)
<b>Carrying amount at 31 Dec</b>	<b>2,351</b>	<b>2,281</b>

Note 23 Assets related to pooled plans	Sydbank Group		Sydbank A/S	
DKKm	2016	2015	2016	2015
Cash deposits	593	274	593	274
Indexed bonds	638	586	638	586
Other bonds	7,644	6,850	7,644	6,850
Other shares etc	4,953	4,284	4,953	4,284
Units	0	0	0	0
Other assets	(11)	6	(11)	6
<b>Total</b>	<b>13,817</b>	<b>12,000</b>	<b>13,817</b>	<b>12,000</b>

## Note 24 Intangible assets

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### Intangible assets

The Group's intangible assets comprise the value of customer relationships as well as goodwill acquired in connection with acquisitions. Activities acquired are allocated to the operating segments Banking, Asset Management and Sydbank Markets. Goodwill represents DKK 170m at year-end 2016 (2015: DKK 170m) and primarily concerns Banking. Goodwill is tested for impairment annually. The impairment test carried out in 2016 did not result in impairment of goodwill.

The value of customer relationships represents DKK 130m at year-end 2016 (2015: DKK 151m). Customer relationships are amortised on a straight-line basis over the expected useful life of 5-15 years.

### Impairment test

The Group's goodwill is tested for impairment annually and where there is any indication of impairment.

The impairment test compares the carrying amount and the estimated present value of expected future cash flows. As a consequence of the special capital structure of financial groups, calculation of the present value of future cash flows is based on an equity model/dividend discount model.

Future cash flows are determined on the basis of approved strategies and earnings estimates for the budget period. Earnings for the budget period are based on the budget for 2017 as approved by management which involve a steady positive development in the Bank's core income. Earnings at the end of the budget period are subsequently projected on the basis of expected long-term growth. Annualised growth in the terminal period is assumed to represent 1.5%.

Expected future cash flows are discounted at the Group's risk-adjusted required rates of return which constitute 11.5% before tax and 9.0% after tax at year-end 2016 (2015: 12.2% before tax and 9.5% after tax). The required rate of return and consequently the discount rate are based on current market data and external benchmarks.

The impairment test conducted does not indicate any impairment at 31 December 2016.

An increase in the Group's risk-adjusted required rate of return from 11.5% to for instance 19% would not result in a goodwill impairment. Correspondingly a decline in estimated growth in the terminal period of 1 percentage point would not result in impairment. In addition a decrease in earnings of 20% for the terminal period would not result in impairment.

## Notes

Note 24 Intangible assets – continued	Sydbank Group		Sydbank A/S	
	2016	2015	2016	2015
DKKm				
Carrying amount at 1 Jan	324	334	321	334
Cost at 1 Jan	389	377	384	377
Additions	-	12	-	7
Disposals	-	-	-	-
Cost at 31 Dec	389	389	384	384
Amortisation and impairment charges at 1 Jan	65	43	63	43
Amortisation and impairment charges for the year	21	22	21	20
Amortisation and impairment charges at 31 Dec	86	65	84	63
<b>Carrying amount at 31 Dec</b>	<b>303</b>	<b>324</b>	<b>300</b>	<b>321</b>

Additions in 2015 represent the value of customer relationships etc acquired in connection with the acquisition of Syd Fund Management A/S. The value of customer relationships is amortised over 5-15 years.

### Note 25 Owner-occupied property

Carrying amount at 1 Jan	1,012	1,069	831	885
Exchange rate adjustment	0	0	0	0
Additions, including improvements	23	24	10	6
Disposals	26	53	12	53
Depreciation for the year	7	7	6	5
Value adjustment recognised directly in equity	3	0	3	0
Value adjustment recognised in the income statement	(19)	(21)	(10)	(2)
<b>Carrying amount at 31 Dec</b>	<b>986</b>	<b>1,012</b>	<b>816</b>	<b>831</b>
Required rate of return applied to calculate fair value (%)	5.0-10.0	5.0-10.0	5.0-10.0	5.0-10.0

Sensitivity analysis: Other things being equal an increase of 0.5 percentage points in the required rate of return will reduce fair value by DKK 61m (2015: DKK 59m).

Note 26 Other property, plant and equipment	Sydbank Group		Sydbank A/S	
	2016	2015	2016	2015
DKKm				
Carrying amount at 1 Jan	68	73	68	73
Cost at 1 Jan	435	500	435	500
Exchange rate adjustment	0	0	0	0
Additions	71	42	71	42
Disposals	36	107	36	107
Cost at 31 Dec	470	435	470	435
Depreciation and impairment charges at 1 Jan	367	427	367	427
Exchange rate adjustment	0	0	0	0
Depreciation for the year	68	46	68	46
Reversal of depreciation and impairment charges	34	106	34	106
Depreciation and impairment charges at 31 Dec	401	367	401	367
<b>Carrying amount at 31 Dec</b>	<b>69</b>	<b>68</b>	<b>69</b>	<b>68</b>

#### Note 27 Other assets

Positive market value of derivatives etc	7,289	8,014	7,289	8,014
Sundry debtors	440	351	434	343
Interest and commission receivable	178	196	178	195
Cash collateral provided, CSA agreements etc	2,834	2,485	2,834	2,485
Other assets	1	1	2	1
<b>Total</b>	<b>10,742</b>	<b>11,047</b>	<b>10,737</b>	<b>11,038</b>

#### Note 28 Amounts owed to credit institutions and central banks

Amounts owed to central banks	36	16	36	16
Amounts owed to credit institutions	17,520	17,769	17,764	18,012
<b>Total</b>	<b>17,556</b>	<b>17,785</b>	<b>17,800</b>	<b>18,028</b>
On demand	803	12,508	1,046	12,751
3 months or less	10,955	4,517	10,955	4,517
Over 3 months not exceeding 1 year	374	375	374	375
Over 1 year not exceeding 5 years	17	103	17	103
Over 5 years	5,407	282	5,408	282
<b>Total</b>	<b>17,556</b>	<b>17,785</b>	<b>17,800</b>	<b>18,028</b>
Of which repo transactions	8,019	11,607	8,019	11,607

# Notes

Note 29 Deposits and other debt	Sydbank Group		Sydbank A/S	
	DKKm	2016	2015	2016
On demand	65,717	61,628	67,746	63,551
At notice	5,237	6,192	5,237	6,192
Time deposits	4,945	6,564	4,945	6,564
Special categories of deposits	5,210	5,516	5,210	5,516
<b>Total</b>	<b>81,109</b>	<b>79,900</b>	<b>83,138</b>	<b>81,823</b>
On demand	66,157	62,107	68,186	64,030
3 months or less	9,222	11,434	9,222	11,434
Over 3 months not exceeding 1 year	1,185	905	1,185	905
Over 1 year not exceeding 5 years	877	1,595	877	1,595
Over 5 years	3,668	3,859	3,668	3,859
<b>Total</b>	<b>81,109</b>	<b>79,900</b>	<b>83,138</b>	<b>81,823</b>
Of which repo transactions	2,288	2,909	2,288	2,909

## Note 30 Bonds issued at amortised cost

Over 3 months not exceeding 1 year	-	3,727	-	3,727
Over 1 year not exceeding 5 years	3,714	-	3,714	-
<b>Total</b>	<b>3,714</b>	<b>3,727</b>	<b>3,714</b>	<b>3,727</b>

## Note 31 Other liabilities

Negative market value of derivatives etc	7,589	8,417	7,589	8,417
Sundry creditors	4,236	4,192	4,225	4,167
Negative portfolio, reverse transactions	3,355	2,033	3,355	2,033
Interest and commission etc	34	53	34	52
Cash collateral received, CSA agreements	973	745	973	745
<b>Total</b>	<b>16,187</b>	<b>15,440</b>	<b>16,176</b>	<b>15,414</b>

## Note 32 Provisions

Provisions for pensions and similar obligations	3	3	3	3
Provisions for deferred tax	165	127	163	127
Provisions for guarantees	126	118	126	118
Other provisions	79	72	79	70
<b>Total</b>	<b>373</b>	<b>320</b>	<b>371</b>	<b>318</b>

Note 32 Provisions - continued

Sydbank Group

DKKm	Provisions for pensions and similar obligations	Provisions for deferred tax	Provisions for guarantees	Other provisions	2016 Total provisions
Carrying amount at 1 Jan	3	127	118	72	320
Additions	0	38	97	17	152
Disposals	0	-	89	10	99
<b>Carrying amount at 31 Dec</b>	<b>3</b>	<b>165</b>	<b>126</b>	<b>79</b>	<b>373</b>

Other provisions mainly concern provisions for onerous contracts and legal actions.

Note 33 Subordinated capital

Sydbank Group

Sydbank A/S

Interest rate	Note	Nominal (m)	Maturity	DKKm		DKKm		
				2016	2015	2016	2015	
2.13 (fixed)	1	Bond loan	EUR 100	11 Mar 2027	738	740	738	740
Total Tier 2 capital					738	740	738	740
0.79 (floating)	2	Bond loan	EUR 100	Perpetual	743	745	743	745
0.85 (floating)	3	Bond loan	EUR 75	Perpetual	558	560	558	560
6.36 (fixed)	4	Bond loan	DKK 85	Perpetual	85	85	85	85
Total Additional Tier 1 capital					1,386	1,390	1,386	1,390
<b>Total subordinated capital</b>					<b>2,124</b>	<b>2,130</b>	<b>2,124</b>	<b>2,130</b>

1) Optional redemption from 11 March 2022 after which the interest rate will be fixed at 1.72% above 5Y Mid-Swap.

2) Optional redemption from 25 April 2017 after which the interest rate will be fixed at 2.10% above 3M EURIBOR.

3) The interest rate follows a 10Y CMS (6M EURIBOR) plus a premium of 0.2%.

4) Optional redemption from 14 May 2017 after which the interest rate will be fixed at 1.75% above 3M CIBOR.

Costs relating to the raising and redemption of subordinated capital	0	0	0	0
Over 1 year not exceeding 5 years	-	-	-	-
Over 5 years	2,124	2,130	2,124	2,130
<b>Total</b>	<b>2,124</b>	<b>2,130</b>	<b>2,124</b>	<b>2,130</b>

## Notes

Note 34 Own holdings	Sydbank Group		Sydbank A/S	
	DKKm	2016	2015	2016
Nominal portfolio of own holdings	27	29	27	29
Nominal portfolio of own holdings as % of share capital	3.8	3.9	3.8	3.9
Shares outstanding (number)	69,501,452	71,334,716	69,501,452	71,334,716
Holding of own shares (number)	2,738,747	2,915,283	2,738,747	2,915,283
<b>Total share capital (number)</b>	<b>72,240,199</b>	<b>74,249,999</b>	<b>72,240,199</b>	<b>74,249,999</b>
<b>Own holdings purchased during the year</b>				
Number of shares	7,166,590	9,312,501	7,166,590	9,312,501
Nominal value	72	93	72	93
Consideration paid	1,384	2,225	1,384	2,225
Number of shares as % of share capital	9.9	12.5	9.9	12.5
<b>Own holdings sold during the year</b>				
Number of shares	7,343,125	7,292,196	7,343,125	7,292,196
Nominal value	73	73	73	73
Consideration received	1,487	1,722	1,487	1,722
Number of shares as % of share capital	10.2	9.8	10.2	9.8

Within the share buyback programme 1,879,025 shares totalling DKK 350m were purchased during the period from 24 February to 22 December 2016. In addition the Bank has purchased and sold own holdings as part of the ordinary banking transactions of Sydbank A/S.



Note 35 Contingent liabilities and other obligating agreements DKKm	Sydbank Group		Sydbank A/S	
	2016	2015	2016	2015
<b>Contingent liabilities</b>				
Financial guarantees	3,880	4,011	3,880	4,011
Mortgage finance guarantees	2,550	1,781	2,550	1,781
Registration and remortgaging guarantees	3,237	3,002	3,237	3,002
Other contingent liabilities	1,718	1,704	1,718	1,704
<b>Total</b>	<b>11,385</b>	<b>10,498</b>	<b>11,385</b>	<b>10,498</b>
<b>Other obligating agreements</b>				
Irrevocable credit commitments	895	784	895	784
Other liabilities*	30	37	43	52
<b>Total</b>	<b>925</b>	<b>821</b>	<b>938</b>	<b>836</b>
* Including intra-group liabilities in relation to rented premises	-	-	13	15

Totalkredit loans arranged by Sydbank are comprised by an agreed right of set-off against future current commission which Totalkredit may invoke in the event of losses on the loans arranged.

Sydbank does not expect that this set-off will have a significant impact on Sydbank's financial position.

As a result of the Bank's membership of Bankdata, the Bank will be obligated to pay an exit charge in the event of exit.

As a result of the statutory participation in the deposit guarantee scheme, the industry has paid an annual contribution of 2.5% of covered net deposits until the Banking Department's capital exceeds 1% of total covered net deposits, which was reached at year-end 2015. The Banking Department will cover the direct losses in connection with the winding-up of distressed financial institutions under Bank Package III and Bank Package IV which are attributable to covered net deposits. Any losses as a result of the final winding-up will be covered by the Guarantee Fund via the Winding-up and Restructuring Department as regards which Sydbank is currently liable for 5.61% of any losses.

As a result of the statutory participation in the resolution financing arrangement (the Resolution Fund), credit institutions will pay an annual contribution over a 10-year period to reach a target funding level totalling 1% of covered deposits. Credit institutions must make contributions to the fund according to their relative size and risk in Denmark. Sydbank expects that contributions will total approximately DKK 200m over a 10-year period.

The Group is party to a number of legal actions. These actions are under continuous review and the necessary provisions made are based on an assessment of the risk of loss. Pending legal actions are not expected to have any significant impact on the financial position of the Group.

# Notes

## Note 36 Fair value hedging of interest rate risks (macro hedge)

Sydbank adopts a cash flow model for managing interest rate risk on all positions other than Danish callable mortgage bonds. The model is updated daily with all the Bank's positions. These are allocated to portfolios according to responsibility and product.

One of these portfolios consists of the Bank's positions in fixed-rate loans and advances, including leasing, fixed-rate deposits and related hedging transactions. To ensure interest rate risk management of this portfolio, the model generates a synthetic cash flow to describe the Bank's risk position at selected interest rate points.

The Bank's basis for concluding hedging transactions – primarily interest rate swaps – is thus a synthetic net cash flow based on the actual cash flow of loans and advances, deposits and previously concluded hedging transactions in the relevant portfolio. The aim is to keep the interest rate risk in this portfolio at a minimum as the Bank wishes to place its interest rate risk in other portfolios containing bonds and other cash equivalent positions.

The Group applies the rules on macro hedge which aim to ensure symmetry between income and expense in the financial statements. Symmetry is achieved by making a hedge adjustment corresponding to the part of the market value adjustment of derivatives which concerns future periods. This hedge adjustment is recorded under "Other assets" and represents DKK 38m as at 31 December 2016 (2015: DKK 29m).

During the year a net gain on hedging transactions of DKK 1m has been recorded (2015: net loss of DKK 9m). The gain eliminates a corresponding net loss on hedged items.

DKKm	Sydbank Group		Sydbank A/S	
	2016	2015	2016	2015
<b>Fixed-rate loans and advances</b>				
Carrying amount	2,232	1,719	2,232	1,719
<b>Fixed-rate deposits</b>				
Carrying amount	3,901	4,289	3,901	4,289
The following derivatives are used to hedge the above:				
<b>Swaps</b>				
Principal	2,615	(7,683)	2,615	(7,683)
Fair value	31	45	31	45

## Note 37 Collateral

At the end of 2016 the Group had deposited as collateral securities at a market value of DKK 85m with Danish and foreign exchanges and clearing centres etc in connection with margin calls and securities settlements etc. In addition the Group has provided cash collateral in connection with CSA agreements of DKK 2,834m.

In connection with repo transactions, which involve selling securities to be repurchased at a later date, the securities remain on the balance sheet and consideration received is recognised as a debt. Repo transaction securities are treated as assets provided as collateral for liabilities. Counterparties are entitled to sell the securities or deposit them as collateral for other loans.

In connection with reverse transactions, which involve purchasing securities to be resold at a later date, the Group is entitled to sell the securities or deposit them as collateral for other loans. The securities are not recognised in the balance sheet and consideration paid is recognised as a receivable.

Assets received as collateral in connection with reverse transactions may be sold to a third party. In such cases a negative portfolio may arise as a result of the accounting rules. This is recognised under "Other liabilities".

DKKm	Sydbank Group		Sydbank A/S	
	2016	2015	2016	2015
<b>Assets sold as part of repo transactions</b>				
Bonds at fair value	10,435	14,712	10,435	14,712
<b>Assets purchased as part of reverse transactions</b>				
Bonds at fair value	7,763	11,140	7,763	11,140
Shares etc	-	1	-	1

The Group makes use of external funding as regards mortgage-like loans. The loans remain on the Group's balance sheet but have de facto been provided as collateral for the funding and the external funding is recognised under "Debt to credit institutions".

External funding of mortgage-like loans	5,299	-	5,299	-
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# Notes

## Note 38 Related parties

DKKm	2016 Group			2015 Group		
	Associates	Board of Directors	Executive Management	Associates	Board of Directors	Executive Management
Loans and advances and loan commitments	257	6	-	107	13	1
Deposits and other debt	1	10	6	4	12	7
Guarantees issued	-	-	-	-	-	-
Collateral received	-	2	-	-	0	1
Interest income	0	0	0	0	0	0
Interest expense	0	0	0	0	0	0
Fee and commission income	0	0	0	0	0	0
Other expenses	443	-	-	390	-	-

### Interest rates 2016:

Group Executive Management: No loans and advances

Board of Directors: 0.50-7.75% p.a.\*

\* Interest rates concern loans in different currencies.

There are no parties with significant influence over Sydbank A/S (ownership share of at least 20%). The Board of Directors and the Group Executive Management columns comprise the Group's exposures to and transactions with members of the Board of Directors and the Group Executive Management as well as their dependants. Further information on the remuneration of management appears from note 13.

Other expenses include primarily IT costs to Bankdata.

Transactions with related parties are settled on an arm's length basis and are subject to the terms and conditions in force. No unusual transactions took place with related parties in 2016.

DKKm	Sydbank Group		Sydbank A/S	
	2016	2015	2016	2015
<b>Amounts owed by and to subsidiaries etc</b>				
Amounts owed by credit institutions and central banks	-	-	-	-
Loans and advances at amortised cost	-	-	167	164
<b>Total asset items</b>	-	-	<b>167</b>	<b>164</b>
Amounts owed to credit institutions	-	-	244	243
Deposits and other debt	-	-	2,030	1,923
<b>Total liability items</b>	-	-	<b>2,274</b>	<b>2,166</b>

## Note 38 Related parties – continued

Sydbank Group

Number				Sydbank Group	
	1 Jan 2016	On appointment/ resignation	Additions	Disposals	31 Dec 2016
<b>Sydbank A/S shares held by</b>					
<b>Board of Directors (Personal holdings)</b>					
Torben Nielsen (Chairman)	2,000		2,000		4,000
Peder Damgaard (Vice-Chairman)	966				966
Svend Erik Busk	1,500				1,500
Alex Slot Hansen	57				57
Erik Bank Lauridsen	2,100	(2,100)			0
Janne Moltke-Leth	0	51			51
Lars Mikkjelgaard-Jensen	350		1,650		2,000
Frank Møller Nielsen	1,537				1,537
Jacob Chr. Nielsen	77				77
Jarl Oxlund	1,200				1,200
Bo Normann Rasmussen	260		141		401
Margrethe Weber	2,106				2,106
<b>Total</b>	<b>12,153</b>	<b>(2,049)</b>	<b>3,791</b>	<b>-</b>	<b>13,895</b>
<b>Board of Directors (Own holdings and holdings of dependants)</b>					
Torben Nielsen (Chairman)	2,000		2,000		4,000
Peder Damgaard (Vice-Chairman)	1,016				1,016
Svend Erik Busk	1,500				1,500
Alex Slot Hansen	57				57
Erik Bank Lauridsen	13,785	(16,485)	2,700		0
Janne Moltke-Leth	0	51			51
Lars Mikkjelgaard-Jensen	350		1,650		2,000
Frank Møller Nielsen	1,537				1,537
Jacob Chr. Nielsen	77				77
Jarl Oxlund	1,200				1,200
Bo Normann Rasmusen	260		141		401
Margrethe Weber	2,106				2,106
<b>Total</b>	<b>23,888</b>	<b>(16,434)</b>	<b>6,491</b>	<b>-</b>	<b>13,945</b>
<b>Group Executive Management (Own holdings and holdings of dependants)</b>					
Karen Frøsig	3,766				3,766
Bjarne Larsen	1,967				1,967
Jan Svarre	2,300				2,300
<b>Total</b>	<b>8,033</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,033</b>
<b>Total</b>	<b>31,921</b>	<b>(16,434)</b>	<b>6,491</b>	<b>-</b>	<b>21,978</b>

# Notes

## Note 39 Fair value disclosure

Financial instruments are included in the balance sheet either at fair value or at amortised cost. The table below breaks down financial instruments by valuation technique.

DKKm	Sydbank Group			
	Fair value	2016 Amortised cost	Fair value	2015 Amortised cost
<b>Financial assets</b>				
Cash and balances on demand at central banks	-	2,047	-	967
Amounts owed by credit institutions and central banks	1,652	5,329	1,062	3,212
Loans and advances at fair value	6,092	-	10,183	-
Loans and advances at amortised cost	-	77,191	-	74,275
Bonds at fair value	26,331	-	26,362	-
Shares etc	1,838	-	1,736	-
Assets related to pooled plans	13,817	-	12,000	-
Other assets	7,382	3,360	8,114	2,933
<b>Total</b>	<b>57,112</b>	<b>87,927</b>	<b>59,457</b>	<b>81,387</b>
Undrawn credit facilities	-	44,772	-	41,373
<b>Maximum credit risk, collateral not considered</b>	<b>57,112</b>	<b>132,699</b>	<b>59,457</b>	<b>122,760</b>
<b>Financial liabilities</b>				
Amounts owed to credit institutions and central banks	8,019	9,537	11,607	6,178
Deposits and other debt	2,288	78,821	2,909	76,991
Deposits in pooled plans	13,825	-	12,009	-
Bonds issued at amortised cost	-	3,714	-	3,727
Other liabilities	10,945	5,242	10,452	4,988
Subordinated capital	-	2,124	-	2,130
<b>Total</b>	<b>35,077</b>	<b>99,438</b>	<b>36,977</b>	<b>94,014</b>

### Financial instruments recognised at fair value

Measurement of financial instruments is based on quoted prices from an active market, on generally accepted valuation models with observable market data or on available data that only to a limited extent are observable market data.

Measurement of financial instruments for which prices are quoted in an active market or which is based on generally accepted valuation models with observable market data is not subject to significant estimates.

As regards financial instruments where measurement is based on available data that only to a limited extent are observable market data, measurement is subject to estimates. Such financial instruments appear from the column unobservable inputs below and include primarily unlisted shares, including shares in DLR Kredit A/S.

The fair value of unlisted shares and other holdings is calculated on the basis of available information on trades etc – including to a very significant extent on shareholders' agreements based on book value. To an insignificant extent fair value is calculated on the basis of expected cash flows.

A 10% change in the calculated market value of financial assets measured on the basis of unobservable inputs will affect profit before tax by DKK 156m.

## Note 39 Fair value disclosure – continued

Sydbank Group

DKKm	Quoted prices	Observable inputs	Unobservable inputs	Total fair value
<b>2016</b>				
<b>Financial assets</b>				
Amounts owed by credit institutions and central banks	-	1,652	-	1,652
Loans and advances at fair value	-	6,092	-	6,092
Bonds at fair value	-	26,331	-	26,331
Shares etc	263	18	1,557	1,838
Assets related to pooled plans	4,953	8,864	-	13,817
Other assets	30	7,352	-	7,382
<b>Total</b>	<b>5,246</b>	<b>50,309</b>	<b>1,557</b>	<b>57,112</b>
<b>Financial liabilities</b>				
Amounts owed to credit institutions and central banks	-	8,019	-	8,019
Deposits and other debt	-	2,288	-	2,288
Deposits in pooled plans	-	13,825	-	13,825
Other liabilities	17	10,928	-	10,945
<b>Total</b>	<b>17</b>	<b>35,060</b>	<b>-</b>	<b>35,077</b>
<b>2015</b>				
<b>Financial assets</b>				
Amounts owed by credit institutions and central banks	-	1,062	-	1,062
Loans and advances at fair value	-	10,183	-	10,183
Bonds at fair value	-	26,361	1	26,362
Shares etc	227	17	1,492	1,736
Assets related to pooled plans	4,285	7,715	-	12,000
Other assets	29	8,085	-	8,114
<b>Total</b>	<b>4,541</b>	<b>53,423</b>	<b>1,493</b>	<b>59,457</b>
<b>Financial liabilities</b>				
Amounts owed to credit institutions and central banks	-	11,607	-	11,607
Deposits and other debt	-	2,909	-	2,909
Deposits in pooled plans	-	12,009	-	12,009
Other liabilities	60	10,392	-	10,452
<b>Total</b>	<b>60</b>	<b>36,917</b>	<b>-</b>	<b>36,977</b>

## Notes

### Note 39 Fair value disclosure – continued

Sydbank Group

DKKm	2016	2015
<b>Assets measured on the basis of unobservable inputs</b>		
Carrying amount at 1 Jan	1,493	1,392
Additions	9	31
Disposals	25	18
Market value adjustment	80	88
<b>Value at 31 Dec</b>	<b>1,557</b>	<b>1,493</b>
<b>Recognised in profit for the year</b>		
Interest income	-	-
Dividend	38	32
Market value adjustment	80	88
<b>Total</b>	<b>118</b>	<b>120</b>

To take into account changes in credit risk concerning derivatives with positive fair value, an adjustment is made – CVA. CVA is a function of the risk of counterparty default (PD), the expected positive exposure and the loss ratio in the event of default. PD is determined on the basis of the Group's credit models – default probability in 12 months. PD beyond 12 months is adjusted on the basis of market data of exposures with a similar PD level. At year-end 2016 CVA constitutes DKK 56m compared to DKK 63m at year-end 2015.

Client margins recognised in connection with derivatives are amortised over the life of the transaction. At year-end 2016 client margins presently not recognised as income total DKK 36m compared to DKK 33m at year-end 2015.

#### Financial instruments recognised at amortised cost

The vast majority of the Group's amounts owed, loans and advances and deposits cannot be transferred without the prior consent of clients and no active market exists for trading in such financial instruments. Consequently fair value disclosures are solely based on circumstances where market conditions have changed after the initial recognition of the instrument, including in particular changes in interest rates. Fair value disclosures on financial instruments recognised at amortised cost are based on the assumptions below:

- As regards financial instruments for which a quoted price exists in the market, such a price is applied. This applies to bonds issued and subordinated capital. In the absence of a market price, the value is determined on the basis of estimates of the market's existing required rate of return.
- As regards loans and advances, impairment charges are presumed to equal the fair value of the credit risk.
- As regards financial instruments with a maturity of less than six months, amortised cost is presumed to equal fair value.
- As a rule the interest rate risk of fixed-rate deposits and loans and advances with a maturity exceeding six months is hedged by derivatives, primarily interest rate swaps. The hedge is treated as a fair value hedge for accounting purposes. As a result of the application of these rules this portfolio, taken as a whole, is recognised at fair value in the balance sheet. The portfolio comprises loans and advances, deposits and swaps, see note 36.

Based on the above it is the overall assessment that the fair value of loans and advances and deposits corresponds to the carrying amount at 31 December 2016 in all material respects.

Sydbank Group

DKKm	2016		2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Bonds issued at amortised cost	3,714	3,714	3,727	3,735
Subordinated capital	2,124	1,867	2,130	1,797



Note 40 Financial liabilities – contractual maturities

Sydbank Group

DKKm	On demand	3 months or less	Over 3 months not exceeding 1 year	Over 1 year not exceeding 5 years	Over 5 years
<b>2016</b>					
Amounts owed to credit institutions and central banks	802	10,955	374	17	5,408
Deposits and other debt	66,157	9,222	1,185	877	3,668
Bonds issued at amortised cost	-	-	-	3,714	-
Subordinated capital	-	-	-	-	2,124
<b>Total</b>	<b>66,959</b>	<b>20,177</b>	<b>1,559</b>	<b>4,608</b>	<b>11,200</b>
Contingent liabilities (guarantees)	6,558	3,431	713	444	239
<b>2015</b>					
Amounts owed to credit institutions and central banks	12,508	4,517	375	103	282
Deposits and other debt	62,108	11,434	904	1,595	3,859
Bonds issued at amortised cost	-	-	3,727	-	-
Subordinated capital	-	-	-	-	2,130
<b>Total</b>	<b>74,616</b>	<b>15,951</b>	<b>5,006</b>	<b>1,698</b>	<b>6,271</b>
Contingent liabilities (guarantees)	5,804	3,342	689	374	289

Amounts are exclusive of interest.

Note 41 Activity per country

Sydbank Group

DKKm	Turnover	Number of employees	Profit before tax	Tax	Public subsidies received
<b>2016</b>					
Denmark, banking and leasing	4,423	1,968	1,790	374	-
Germany, banking	184	69	80	23	-
Switzerland, in liquidation	-	-	(1)	0	-
<b>Total</b>	<b>4,607</b>	<b>2,037</b>	<b>1,869</b>	<b>397</b>	<b>-</b>
<b>2015</b>					
Denmark, banking and leasing	4,606	1,976	1,402	291	-
Germany, banking	182	68	72	34	-
Switzerland, in liquidation	0	-	(1)	0	-
<b>Total</b>	<b>4,788</b>	<b>2,044</b>	<b>1,473</b>	<b>325</b>	<b>-</b>

Turnover is defined as interest income, fee and commission income and other operating income.

# Notes

## Note 42 Financial highlights

Sydbank Group

	2016	2015	2014	2013	2012
<b>Income statement highlights (DKK m)</b>					
Net interest and fee income	4,002	4,170	4,297	4,165	4,361
Market value adjustments	553	251	391	474	558
Staff costs and administrative expenses	2,487	2,455	2,497	2,314	2,380
Impairment of loans and advances etc	98	311	692	1,861	1,748
Profit/(Loss) on holdings in associates etc	2	5	9	2	10
Profit for the year	1,472	1,148	1,052	187	467
<b>Balance sheet highlights (DKK bn)</b>					
Loans and advances	83.3	84.4	75.3	71.5	74.2
Shareholders' equity	11.8	11.4	11.3	10.2	10.0
Total assets	146.7	142.7	152.3	147.9	152.7
<b>Financial ratios per share (DKK per share of DKK 10)</b>					
EPS Basic	20.9	15.5	14.2	2.5	6.4
Book value	169.2	160.2	154.2	139.7	137.6
Dividend	10.46	11.12	7.08	-	-
Share price/EPS	10.5	14.3	13.4	56.7	15.6
Share price/book value	1.30	1.38	1.23	1.03	0.72
<b>Other financial ratios and key figures</b>					
Capital ratio	19.2	17.6	16.0	15.7	15.9
Tier 1 capital ratio	17.4	15.9	15.5	15.3	15.6
Pre-tax profit as % of average shareholders' equity	16.1	13.0	12.3	1.7	6.4
Post-tax profit as % of average shareholders' equity	12.7	10.1	9.8	1.8	4.8
Income/cost ratio (DKK)	1.69	1.49	1.39	1.04	1.14
Interest rate risk	1.6	2.8	0.0	0.6	1.8
Foreign exchange position	2.2	2.2	1.8	2.1	0.9
Foreign exchange risk	0.0	0.0	0.0	0.0	0.0
Loans and advances relative to deposits	0.8	1.0	0.8	0.9	1.0
Loans and advances relative to shareholders' equity	6.6	7.4	6.7	7.0	7.4
Growth in loans and advances for the year	3.9	8.5	2.8	(3.7)	(3.0)
Excess cover relative to statutory liquidity requirements	186.5	166.8	142.2	179.8	127.4
Total large exposures	0.0	0.0	0.0	25.8	21.6
Impairment ratio for the year	0.1	0.3	0.7	2.2	2.0
Return on assets (%)	1.02	0.78	0.70	0.12	0.31

Financial highlights and financial ratios are specified in the Danish FSA's executive order on financial reporting of credit institutions etc.

Note 42 Financial highlights – continued

Sydbank A/S

	2016	2015	2014	2013	2012
<b>Income statement highlights (DKKm)</b>					
Net interest and fee income	3,835	4,116	4,302	4,160	4,361
Market value adjustments	553	252	391	474	557
Staff costs and administrative expenses	2,431	2,413	2,505	2,316	2,390
Impairment of loans and advances etc	98	311	692	1,861	1,745
Profit/(Loss) on holdings in associates etc	71	(23)	7	(69)	4
Profit for the year	1,472	1,148	1,052	187	467
<b>Balance sheet highlights (DKKbn)</b>					
Loans and advances	83.5	84.6	75.5	69.3	74.4
Shareholders' equity	11.8	11.4	11.3	10.2	10.0
Total assets	148.9	144.9	152.8	143.8	152.9
<b>Financial ratios per share (DKK per share of DKK 10)</b>					
EPS Basic	20.9	15.5	14.2	2.5	6.4
Book value	169.2	160.2	154.2	139.7	137.6
Dividend	10.46	11.12	7.08	-	-
Share price/EPS	10.5	14.3	13.4	56.7	15.6
Share price/book value	1.30	1.38	1.23	1.03	0.72
<b>Other financial ratios and key figures</b>					
Capital ratio	18.7	17.2	16.0	16.0	15.8
Tier 1 capital ratio	16.8	15.5	15.4	15.8	15.5
Pre-tax profit as % of average shareholders' equity	15.9	12.8	12.2	1.9	6.4
Post-tax profit as % of average shareholders' equity	12.7	10.1	9.8	1.8	4.8
Income/cost ratio (DKK)	1.69	1.50	1.39	1.04	1.14
Interest rate risk	1.6	2.8	0.0	0.7	1.8
Foreign exchange position	2.2	2.2	1.8	2.1	0.9
Foreign exchange risk	0.0	0.0	0.0	0.0	0.0
Loans and advances relative to deposits	0.9	0.9	0.9	1.0	1.0
Loans and advances relative to shareholders' equity	7.1	7.4	6.7	6.8	7.4
Growth in loans and advances for the year	3.9	8.5	6.5	(6.8)	(1.9)
Excess cover relative to statutory liquidity requirements	182.0	162.8	141.4	175.2	127.0
Total large exposures	0.0	0.0	0.0	15.3	21.6
Impairment ratio for the year	0.1	0.3	0.7	2.3	2.0
Return on assets (%)	1.00	0.77	0.71	0.13	0.31

Financial highlights and financial ratios are specified in the Danish FSA's executive order on financial reporting of credit institutions etc.

# Notes

## Note 43 Reporting events occurring after the balance sheet date

No matters of significant impact on the financial position of the Group have occurred after the expiry of the financial year.

## Note 44 Group holdings and enterprises

Sydbank Group

31 December 2016	Activity		Share capital (m)	Shareholders' equity (DKK m)	Profit/(Loss) (DKK m)	Ownership share (%)
Sydbank A/S		DKK	722			
<b>Consolidated subsidiaries</b>						
DiBa A/S, Aabenraa	Investment	DKK	300	2,036	79	100
Ejendomsselskabet af 1. juni 1986 A/S, Aabenraa	Real property	DKK	10	4	(8)	100
Syd Fund Management A/S, Aabenraa	Administration	DKK	40	46	6	100
Sydbank (Schweiz) AG in Liquidation, St. Gallen, Switzerland*	-	CHF	40	248	(1)	100
<b>Holdings in associates</b>						
Foreningen Bankdata, Fredericia**	IT	DKK	544	544	(54)	31
Core Property Management A/S, Copenhagen**	Real property	DKK	10	27	12	20

\* With no significant activity at 31 December 2016.

\*\* Financial information according to the companies' most recently published annual reports (2015).

## Note 45 Large shareholders

Silchester International Investors LLP, London owns more than 5% of Sydbank's share capital.

DKKm

**2016**

No acquisitions.

**2015**

On 31 March 2015 the Group acquired all activities from Syd Fund Management A/S.

**Statement of fair value****Assets**

Amounts owed by credit institutions and central banks	4
Bonds at fair value	32
Intangible assets, software and development costs	5
Intangible assets, customer relationships	7
Other assets	6
Prepayments	2
<b>Total assets</b>	<b>56</b>

**Liabilities**

Other liabilities	12
<b>Total liabilities</b>	<b>12</b>
Net assets acquired	44
Purchase price	44
<b>Goodwill</b>	<b>0</b>

The purchase price for Syd Fund Management A/S has been settled in cash. No transaction costs have been paid in connection with the acquisition.

The Group's profit would have been unchanged if the acquisition date had been 1 January 2015.

The ordinary activities of the activity acquired affected Group profit by DKK 3m for 2015.

## Definitions – Group Financial Ratios & Performance Measures

Financial ratio/performance measure	Definition
EPS Basic (DKK)	Profit for the year divided by average number of shares outstanding.
EPS Diluted (DKK)	Profit for the year divided by average number of shares outstanding, including dilutive effect of share options and restricted shares.
Share price at year-end	Closing price of the Sydbank share at year-end.
Book value per share (DKK)	Shareholders' equity at year-end divided by number of shares outstanding at year-end.
Common Equity Tier 1 capital ratio	Common Equity Tier 1 capital divided by risk exposure amount.
Tier 1 capital ratio	Tier 1 capital divided by risk exposure amount.
Capital ratio	Total capital divided by risk exposure amount.
Pre-tax profit as % of average shareholders' equity	Pre-tax profit divided by quarterly average of shareholders' equity.*
Post-tax profit as % of average shareholders' equity	Post-tax profit divided by quarterly average of shareholders' equity.*
Return on assets (%)	Profit for the year divided by total average assets.
Loans and advances relative to deposits	Loans and advances at amortised cost divided by deposits (deposits and other debt and deposits in pooled plans).
Loans and advances relative to shareholders' equity	Loans and advances at amortised cost divided by shareholders' equity.
Growth in loans and advances for the year	Calculated on the basis of loans and advances at amortised cost.
Accumulated impairment ratio	Impairment charges and provisions at year-end (allowance account) divided by loans and advances at amortised cost and guarantees before impairment charges and provisions.
Impairment ratio for the year	Impairment charges for loans and advances etc divided by loans and advances at amortised cost and guarantees before impairment charges and provisions.
Number of full-time staff at year-end	Number of full-time equivalent staff (part-time staff translated into full-time staff) at year-end.

\* The method applied to calculate average shareholders' equity has been changed from being a simple average of shareholders' equity at the beginning and at the end of the year to being an average of the year's four quarters at year-end. Comparative figures for the period 2012-2015 have been restated, see Financial Review page 8.



## Notes – Derivatives

### Distribution by maturity

DKKm	3 months or less	Over 3 months not exceeding 1 year	Over 1 year not exceeding 5 years	Over 5 years	Total 2016	Total 2015
<b>Nominal values</b>						
Foreign exchange contracts:						
Spot, bought	2,843	-	-	-	2,843	4,670
Spot, sold	1,121	-	-	-	1,121	4,043
Forwards/futures, bought	23,882	3,754	372	0	28,008	31,251
Forwards/futures, sold	23,766	5,115	324	0	29,205	32,214
Swaps	63	347	203	761	1,374	2,321
Options, acquired	2,519	1,270	62	0	3,851	2,701
Options, written	1,994	1,147	16	0	3,157	2,518
Interest rate contracts:						
Spot, bought	4,330	-	-	-	4,330	1,441
Spot, sold	4,105	-	-	-	4,105	1,654
Forwards/futures, bought	2,508	248	0	0	2,756	2,437
Forwards/futures, sold	4,165	3	109	0	4,277	5,825
Forward Rate Agreements, bought	400	0	0	0	400	17,145
Forward Rate Agreements, sold	2,400	0	0	0	2,400	13,686
Swaps	11,788	19,437	62,399	47,890	141,515	163,559
Options, acquired	3,206	2,122	4,185	1,158	10,671	15,838
Options, written	2,104	3,815	4,591	823	11,333	15,929
Equity contracts:						
Spot, bought	133	-	-	-	133	152
Spot, sold	165	-	-	-	165	156
Forwards/futures, bought	3	0	0	0	3	10
Forwards/futures, sold	6	0	0	0	6	11
Options, acquired	1	0	0	0	1	0
Options, written	1	0	0	0	1	0
Other derivative contracts:						
Futures commodities, bought	0	0	0	0	0	26
Futures commodities, sold	0	0	0	0	0	26
Options, acquired	0	0	0	0	0	0
Options, written	0	0	0	0	0	0
Credit Default Swaps	0	0	0	0	0	410



## Distribution by maturity

DKKm	3 months or less	Over 3 months not exceeding 1 year	Over 1 year not exceeding 5 years	Over 5 years	Total 2016	Total 2015
<b>Net market values</b>						
Foreign exchange contracts:						
Spot, bought	9	-	-	-	9	5
Spot, sold	3	-	-	-	3	(10)
Forwards/futures, bought	281	62	6	0	349	200
Forwards/futures, sold	(161)	(29)	(5)	0	(195)	(71)
Swaps	3	16	7	56	82	82
Options, acquired	17	9	1	0	27	18
Options, written	(14)	(13)	(2)	0	(28)	(18)
Interest rate contracts:						
Spot, bought	6	-	-	-	6	(2)
Spot, sold	(4)	-	-	-	(4)	0
Forwards/futures, bought	14	1	0	0	15	2
Forwards/futures, sold	1	0	0	0	0	(5)
Forward Rate Agreements, bought	0	0	0	0	0	(11)
Forward Rate Agreements, sold	1	0	0	0	1	12
Swaps	(57)	(49)	(346)	(171)	(624)	(664)
Options, acquired	20	51	251	5	328	290
Options, written	1	(53)	(213)	(3)	(267)	(206)
Equity contracts:						
Spot, bought	(1)	-	-	-	(1)	0
Spot, sold	1	-	-	-	1	0
Forwards/futures, bought	0	0	0	0	0	10
Forwards/futures, sold	0	0	0	0	0	(36)
Options, acquired	1	1	0	0	2	0
Options, written	(1)	(1)	0	0	(2)	0
Other derivative contracts:						
Futures commodities, bought	0	0	0	0	0	0
Futures commodities, sold	0	0	0	0	0	0
Options, acquired	0	0	0	0	0	0
Options, written	0	0	0	0	0	0
Credit Default Swaps	0	0	0	0	0	0
<b>Total net market values</b>					<b>(299)</b>	<b>(403)</b>

## Notes – Derivatives

DKKm	Total contracts 2016*			Total contracts 2015*		
	Positive	Negative	Net	Positive	Negative	Net
<b>Market values</b>						
Foreign exchange contracts:						
Spot, bought	14	(4)	9	10	(6)	5
Spot, sold	5	(2)	3	4	(14)	(10)
Forwards/futures, bought	466	(117)	349	462	(262)	200
Forwards/futures, sold	187	(382)	(195)	278	(348)	(71)
Swaps	112	(30)	82	146	(63)	82
Options, acquired	27	0	27	18	0	18
Options, written	0	(28)	(28)	0	(18)	(18)
Interest rate contracts:						
Spot, bought	7	(1)	6	1	(2)	(2)
Spot, sold	1	(5)	(4)	1	(1)	0
Forwards/futures, bought	17	(2)	15	3	(1)	2
Forwards/futures, sold	2	(2)	0	0	(5)	(5)
Forward Rate Agreements, bought	0	0	0	0	(11)	(11)
Forward Rate Agreements, sold	1	0	1	12	0	12
Swaps	6,106	(6,730)	(624)	6,756	(7,420)	(664)
Options, acquired	328	0	328	292	(2)	290
Options, written	6	(273)	(267)	6	(212)	(206)
Equity contracts:						
Spot, bought	3	(5)	(1)	2	(2)	0
Spot, sold	4	(3)	1	2	(2)	0
Forwards/futures, bought	0	0	0	11	(1)	10
Forwards/futures, sold	0	0	0	0	(36)	(36)
Options, acquired	2	0	2	0	0	0
Options, written	0	(2)	(2)	0	0	0
Other derivative contracts:						
Futures commodities, bought	0	0	0	0	0	0
Futures commodities, sold	0	0	0	0	0	0
Options, acquired	0	0	0	0	0	0
Options, written	0	0	0	0	0	0
Credit Default Swaps	0	0	0	9	(9)	0
<b>Total market values</b>	<b>7,289</b>	<b>(7,589)</b>	<b>(299)</b>	<b>8,014</b>	<b>(8,417)</b>	<b>(403)</b>

\* All contracts are non-guaranteed.

DKKm	Total contracts 2016			Total contracts 2015		
	Positive	Negative	Net	Positive	Negative	Net
<b>Average market values</b>						
Foreign exchange contracts:						
Spot, bought	17	(9)	8	18	(14)	4
Spot, sold	11	(22)	(11)	22	(26)	(4)
Forwards/futures, bought	358	(183)	175	702	(303)	399
Forwards/futures, sold	213	(264)	(51)	346	(642)	(296)
Swaps	122	(34)	88	205	(98)	107
Options, acquired	23	0	23	28	0	28
Options, written	0	(23)	(23)	0	(30)	(30)
Interest rate contracts:						
Spot, bought	16	(8)	9	251	(4)	246
Spot, sold	8	(14)	(6)	4	(251)	(247)
Forwards/futures, bought	17	(11)	6	17	(8)	9
Forwards/futures, sold	12	(13)	0	5	(6)	(1)
Forward Rate Agreements, bought	0	(6)	(6)	0	(23)	(23)
Forward Rate Agreements, sold	6	0	6	23	0	23
Swaps	7,070	(7,788)	(718)	8,943	(9,642)	(698)
Options, acquired	362	(1)	361	326	(3)	323
Options, written	8	(291)	(284)	8	(239)	(231)
Equity contracts:						
Spot, bought	7	(5)	2	8	(8)	0
Spot, sold	4	(7)	(3)	8	(8)	0
Forwards/futures, bought	5	(3)	1	4	(14)	(10)
Forwards/futures, sold	7	(8)	(1)	13	(7)	6
Options, acquired	1	0	1	2	0	2
Options, written	0	(1)	(1)	0	(2)	(2)
Other derivative contracts:						
Futures commodities, bought	0	0	0	0	0	0
Futures commodities, sold	0	0	0	0	0	0
Options, acquired	0	0	0	0	0	0
Options, written	0	0	0	0	0	0
Credit Default Swaps	5	(5)	0	8	(8)	0
<b>Total average market values</b>	<b>8,272</b>	<b>(8,697)</b>	<b>(425)</b>	<b>10,943</b>	<b>(11,338)</b>	<b>(395)</b>

Average market value calculations are based on monthly statements.

DKKm	Market values		Collateral		Exposure by counterparty	
	Positive	Negative	Provided	Received*	Amount due	Amount owed
<b>2016</b>						
<b>Exposure</b>						
Counterparties with CSA agreements	5,426	7,127	2,834	973	819	657
Counterparties without CSA agreements	1,863	462	-	-	1,593	192
<b>Total</b>	<b>7,289</b>	<b>7,589</b>	<b>2,834</b>	<b>973</b>	<b>2,412</b>	<b>849</b>
<b>2015</b>						
<b>Exposure</b>						
Counterparties with CSA agreements	6,270	7,780	2,474	745	521	302
Counterparties without CSA agreements	1,744	637	-	-	1,442	335
<b>Total</b>	<b>8,014</b>	<b>8,417</b>	<b>2,474</b>	<b>745</b>	<b>1,963</b>	<b>637</b>

\* Includes bonds received as collateral not reported in the Bank's balance sheet.

# Notes – Risk Management

On the basis of the strategic objectives for the Group, the Board of Directors has issued guidelines for the Group Executive Management and has adopted policies as regards credit risk, liquidity risk, market risk, operational risk, insurance and IT security.

The Board of Directors has set up a Risk Committee to address risk management in greater detail. The chairman of the Board of Directors is the chairman of the Risk Committee, which also consists of the vice-chairman of the Board of Directors, two ordinary board members, the Bank's CEO, the Bank's Group Executive Vice President responsible for risk management as well as the Group's Chief Risk Officer (CRO). The committee convenes as a minimum every quarter where ongoing reporting to the Board of Directors is reviewed and current issues are discussed. At subsequent board meetings the contents and conclusions of the Risk Committee meetings are presented to the full Board of Directors.

Credits is responsible for the day-to-day handling of credit risk whereas Sydbank Markets is responsible for the day-to-day handling of liquidity and market risks. The individual business units are each responsible for the day-to-day handling of operational risk. Accounting is responsible for handling the Group's insurances and IT & Business Processes is responsible for the Group's IT security.

Overall risk management, including ongoing reporting to the Group Executive Management and the Board of Directors, is performed by Risk where the Group Executive Vice President for this business unit is also the CRO of the Sydbank Group.

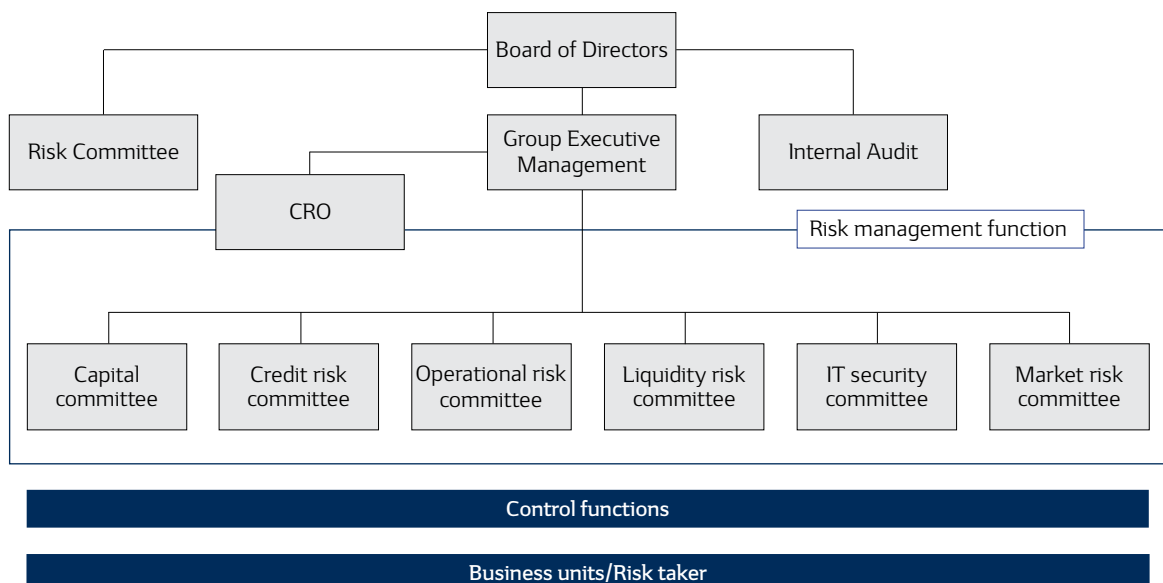
Risk management is supported by the Group's risk organisation, see the chart below.

The relevant business areas are represented in the committees, each headed by a Group Executive Management member. The CRO is a member of all committees.

It is the responsibility of the committees, within their respective risk areas, to identify, assess and follow up on the Group's risks including principles to determine risk, models applied, and to assess whether exposures and risks comply with the Group's intended profile and policy.

The committees convene as a minimum every quarter and prepare as a minimum once a year a risk analysis which is included as an important element in the annual risk assessment of the Group.

The risk assessment at 31 December 2016 together with the Group's 2016 financial statements, Credit Risk 2016, the Group's Internal Liquidity Adequacy Assessment Process (ILAAP) at 31 December 2016 and the Group's Internal Capital Adequacy Assessment Process (ICAAP) at 31 December 2016 constitute the main elements of Risk Committee and Audit Committee meetings as well as board meetings at the beginning of 2017. On the basis of the discussions at these meetings the Board of Directors will subsequently update the Group's policies and guidelines.



## Credit risk

### Credit and client policy

The Group's overall credit risk is managed according to policies and limits determined and adopted by the Board of Directors.

The Board of Directors lays down the general framework for credit granting and the largest exposures are submitted on a regular basis to the Board of Directors for approval or information.

Employees with a written lending authority may grant approvals. Such authority is adjusted to the employee's client portfolio and the individual client's rating. In connection with new clients employees have limited lending authority.

### Retail clients

Credit granting to retail clients is based on the client's disposable amount, wealth and leverage (defined as total household debt divided by household personal income) as well as knowledge of the client.

The objective is that the majority of retail client exposures are approved by the client's branch and that the remaining client exposures are approved by specially appointed heads of credit. Consequently exposures where the client has negative assets of more than DKK 100,000 are approved by heads of credit. Major exposures and highly leveraged exposures are approved centrally by Credits.

### Corporate clients

As a rule corporate clients are serviced by the regional head office or by special corporate departments. The Group's largest and most complex exposures are handled by Corporate Banking & Finance. The objective is that all small corporate exposures with satisfactory credit quality are approved at regional level. Medium-size and major exposures are approved centrally by Credits, the Group Executive Management or the Board of Directors.

The Group's credit-related decisions are based on a systematic and structured review of the client's circumstances and industry affiliation. The review is based on all accessible information, including industry analyses and financial statements, and also comprises an assessment of the client's forward-looking business plan and its feasibility.

### Credit activities

Credit activities are conducted partly in the retail and corporate departments and partly centrally in Credits. As described below, the Group has developed rating models to assess risks to retail clients, corporate clients and investment clients.

The Group's credit activities are an active element in the Group's efforts to increase its earnings by:

- maintaining and increasing the portfolio of profitable and promising retail, corporate and investment clients
- maintaining and increasing clients' business volume with the Group through a balanced composition of:
  - loans and advances and guarantees
  - deposits
  - payment services transactions
  - trading in securities etc
  - financial instruments
- avoiding/reducing risk of loss by implementing action plans for weak exposures. These action plans involve reducing the Group's exposure as well as hedging risks by securing additional collateral.

Risks in connection with lending must be precalculated on an informed and well-founded basis.

The Group's credit exposure is in particular to clients in Denmark and Northern Germany.

All regional corporate departments have identified weak exposures to which particular focus is given and these exposures are analysed and reviewed via Credits. The objective is to ensure that the Group's action plans for these exposures are evaluated and adjusted on an ongoing basis.

Moreover Credits has a department which is assigned to exposures with a significant risk of loss. These exposures are closely monitored and Credits is actively involved in preparing solutions to mitigate the Group's credit risk.

### Risk Follow-up

Risk Follow-up is part of the division Risk.

By means of analyses, random sampling and inspections at branches and departments and centrally, Risk Follow-up monitors the credit quality of credit exposures, registrations as well as the compliance with policies and business procedures in general.

This process involves research and analyses using information from the Group's database on all exposures.

Moreover Risk Follow-up conducts regular credit quality analyses of the Group's new exposures as well as regular random sampling of the retail and corporate client portfolios.

Finally Risk Follow-up evaluates on the basis of a credit expert assessment whether the Group's rating models rank clients correctly.

## Notes – Risk Management

### Collateral

The Group aims to mitigate the risk on individual exposures by way of charges on assets, netting agreements and guarantees.

The most frequent types of charges include mortgages and charges on financial assets (shares, bonds and units).

The Group receives different kinds of guarantees for exposures. Many of these are provided by companies or individuals who have a group relationship with the debtor.

The Group assesses on an ongoing basis the value of collateral provided. The value is determined as the expected net proceeds on realisation.

The two tables below illustrate the breakdown of collateral by type and rating category, respectively.

#### Collateral received and types of collateral

DKKm	2016	2015
Loans and advances at fair value	6,092	10,183
Loans and advances at amortised cost	77,191	74,275
Guarantees	11,385	10,498
Credit exposure for accounting purposes	94,668	94,956
Collateral value	51,016	50,254
<b>Total unsecured</b>	<b>43,652</b>	<b>44,702</b>
<b>Types of collateral</b>		
Real property	20,532	16,534
Financial collateral	11,708	16,410
Leased assets, mortgages etc	5,096	4,624
Floating charges, operating equipment etc	6,366	6,404
Guarantees	1,294	1,047
Other items of collateral	233	452
Total collateral used	45,229	45,471
Particularly secured transactions (mortgage guarantees)	5,787	4,783
<b>Total</b>	<b>51,016</b>	<b>50,254</b>

In the event that the Group uses collateral that is not immediately convertible into liquid holdings, it is the Group's policy to dispose of such assets as quickly as possible. Real property is handed over to an estate agent. Repossessed leased equipment is sold as quickly as possible. In 2016 repossessed equipment as well as real property taken over in connection with non-performing exposures amounted to DKK 62m (2015: DKK 32m). Leased assets are assessed and depreciated on an ongoing basis. As a result the calculated collateral as regards the Group's leasing activities will decline during periods of falling prices of leased assets.

Mortgages on real property have increased by DKK 3,998m from DKK 16,534m in 2015 to DKK 20,532m in 2016. The increase is attributable to a rise in mortgage-like loans of DKK 4,426m.

Financial collateral has decreased by DKK 4,702m from DKK 16,410m in 2015 to DKK 11,708m in 2016, which is primarily attributable to the decline in loans and advances at fair value which have gone down by DKK 4,091m. Loans and advances at fair value are repo loans and advances with financial collateral.

The table below shows the size of loans and advances, guarantees as well as collateral according to rating category. The value of collateral is assessed relative to loans and advances and

guarantees, and excess collateral is not included in the calculation of collateral. Approximately 53.9% (2015: 52.9%) of the Group's loans and advances is covered via collateral.

#### Collateral by rating category

DKKm	Loans/ advances	Guarantees	Collateral value	2016 Unsecured
Rating category				
1	14,206	2,185	12,706	3,685
2	21,714	2,219	12,759	11,174
3	19,504	2,114	10,328	11,290
4	11,139	878	4,805	7,212
5	6,028	554	2,807	3,775
6	3,434	309	1,581	2,162
7	1,235	149	489	895
8	664	164	345	483
9	5,261	332	2,142	3,451
Default	1,655	180	767	1,068
NR/STD	1,606	2,301	2,287	1,620
<b>Total</b>	<b>86,446</b>	<b>11,385</b>	<b>51,016</b>	<b>46,815</b>
Individual impairment of loans and advances	2,778			2,778
Collective impairment of loans and advances	385			385
<b>Total</b>	<b>83,283</b>	<b>11,385</b>	<b>51,016</b>	<b>43,652</b>

#### Financial counterparties

Trading in securities, currencies and derivatives, as well as payment services etc involve exposure to financial counterparties in the form of delivery risk or credit risk.

Delivery risk is the risk that the Group does not receive payments or securities in connection with the settlement of securities or currency transactions equalling the securities or payments delivered by the Group.

Management grants delivery risk lines and credit risk lines to financial counterparties based on the risk profile of the individual counterparty which is assessed in terms of rating, earnings, capital position as well as the size of the financial counterparty. Risks and lines to financial counterparties are monitored continuously.

The Group participates in an international foreign exchange settlement system, CLS<sup>®</sup>, which aims to reduce delivery risk. In CLS<sup>®</sup> payment is made on the net position for each currency, and only one amount for each currency is paid or received. In addition this net exposure is only to one counterparty, who is the Group's partner in the system.

The Group aims to mitigate credit risk to financial counterparties in many ways, eg by concluding netting agreements (ISDA agreements). Moreover the Group has entered into agreements (CSA agreements) with all significant counterparties to ensure credit risk mitigation of derivatives. Exposures are calculated on a daily basis after which the parties settle collateral. Consequently exposures are reset in all material respects on a daily basis. The agreements are managed by Securities & International Transactions.

# Notes – Risk Management

## Market risk

Market risk is the risk that the market value of the Group's assets and liabilities will be affected as a result of changes in market prices.

Assuming market risk is considered a natural and integral part of all-round banking. Assuming risk must be on a conscious and well-documented basis. To the extent possible, risk should be assumed in products which offer a possibility of eliminating or mitigating risk at short notice.

Interest rate and foreign exchange risks deriving from deposits by and loans and advances to the Group's clients are hedged on an ongoing basis and are consequently not used for position-taking.

The Group operates with the following types of market risk:

- Interest rate risk
- Equity risk
- Foreign exchange risk
- Other market risks.

For security and control reasons, the Board of Directors emphasises that the Group's market risk is subject to central decision-making and management. Consequently the Group's most significant interest rate, foreign exchange and equity risks must be assumed by the parent.

The Board of Directors has determined the Group's risk tolerance as follows: medium as regards interest rate risk and low as regards the other types of market risk.

Market risk is managed by Sydbank Markets according to policies and limits determined and adopted by the Bank's Board of Directors. The Group Executive Management has passed on the overall limits from the Board of Directors to Sydbank Markets and Treasury. Sydbank Markets manages trading and market-making as regards the Group's clients and financial counterparties. Treasury manages the Group's long-term interest rate positions and hedging, including the Group's primary liquidity positions as well as liquidity generation. The Group's returns in Sydbank Markets and Treasury appear from Note 5 Segment reporting. Apart from interest rate risks, Treasury does not have any other significant market risks.

Middle Office in Securities & International Transactions as well as Risk continuously monitor the individual risk areas and provide management with extensive reporting on a regular basis.

## Interest rate risk

Interest rate risk comprises the Group's total risk of loss resulting from interest rate changes in financial markets.

The Group uses a cash flow model to determine the interest rate risk of fixed-rate positions. A duration model is used to calculate the interest rate risk of Danish callable mortgage bonds. Interest rate risk makes up the bulk of the Group's overall market risk.

In accordance with the Danish FSA's method of calculation, interest rate risk is calculated as the change in market values at a parallel shift in the interest rate level of plus 1 percentage point in all currencies and at 31 December 2016 it represents DKK 177m or 1.8% of the Group's Common Equity Tier 1 capital.

### Interest rate risk by duration and currency

DKKm	0-1 yr	1-2 yrs	2-3 yrs	> 3 yrs	Total 2016	Total 2015
DKK	15	22	31	224	292	417
EUR	19	(1)	(1)	(133)	(116)	(110)
EUR/DKK	34	21	30	91	176	307
Other	1	0	0	0	1	0
<b>Total 2016</b>	<b>35</b>	<b>21</b>	<b>30</b>	<b>91</b>	<b>177</b>	
<b>Total 2015</b>	<b>(13)</b>	<b>49</b>	<b>117</b>	<b>154</b>		<b>307</b>

The bulk of the Group's interest rate risk is attributable to positions with a duration exceeding three years. The Group has no significant interest rate risk apart from EUR/DKK.

The Group's interest rate risk is positive, ie the Group's profit will be adversely affected by an interest rate increase, in this case particularly in the event of a rise in long-term interest rates (> 2 years).

The Danish FSA's method of calculation allows full set-off between different currencies, maturities and yield curves. The Group is aware of the risk of these assumptions and monitors these risks separately on an ongoing basis.

The Group has established an internal interest rate risk scenario where set-off between currencies is not allowed – apart from EUR and DKK. Moreover the scenario allocates the interest rate risk to underlying curves (the government curve, the Danish mortgage curve and the swap curve) and the scenario risk cannot be lower than the numerically highest risk of the individual curves. In addition a premium is included for options. At 31 December 2016 this risk measure constitutes DKK 490m (2015: DKK 532m).



The scenario is used eg in connection with the calculation of the Group's solvency need.

The bulk of the Group's interest rate risk at 31 December 2016 is attributable to the Group's positions in Treasury.

#### Interest rate risk - Sydbank Markets and Treasury

DKKm	2016			2015		
	Sydbank		Total	Sydbank		Total
	Markets	Treasury		Markets	Treasury	
DKK	126	166	292	156	261	417
EUR	(71)	(45)	(116)	(89)	(21)	(110)
EUR/DKK	55	121	176	67	240	307
Other	(1)	2	1	(2)	2	0
<b>Total</b>	<b>54</b>	<b>123</b>	<b>177</b>	<b>65</b>	<b>242</b>	<b>307</b>

#### Equity risk

The Group's portfolio of shares and holdings in associates represents DKK 2,000m at 31 December 2016 (2015: DKK 1,899m), including equity investments totalling DKK 1,607m (2015: DKK 1,701m).

In the event of a 10% change in share prices, profit before tax will be affected by DKK 200m (2015: DKK 190m), including equity investments totalling DKK 161m (2015: DKK 170m).

#### Foreign exchange risk

As in previous years the Group's foreign exchange risk was insignificant in 2016 and consequently a 10% change in foreign exchange rates against DKK at 31 December 2016 will not affect profit before tax significantly.

#### Other market risks

The Group does not have any other significant market risks at 31 December 2016.

# Notes – Risk Management

## Liquidity risk

Liquidity risk is the risk that the Group either cannot meet its payment obligations as they mature or is only able to do so via disproportionately large funding costs.

The Bank's Board of Directors has adopted a liquidity risk policy which sets out the framework for the Group's liquidity management, including operational targets for the Group's risk tolerance as well as requirements for the funding structure, the calculation of liquidity buffer and stress tests. Moreover the liquidity risk policy sets out requirements for employee competences, contingency plans and reporting as well as determines the framework for asset encumbrance and allocation of the Group's liquidity costs.

Targets and policies:

- Consistently strong and stable deposit base which ensures stability in the long-term funding of the Group's lending activities.
- Maintenance of high ratings.
- Active participation in international money markets as well as access to international capital markets through the application of loan programmes. Coupled with a high rating this ensures that the Group has uninterrupted access to a diversified and competitive funding basis.
- Maintenance of a liquidity buffer which together with prudent management of the run-off profile of funding ensures that the Group's operating activities do not depend on capital market funding. In other words the liquidity buffer may in the short and medium term counterbalance the effects of an adverse liquidity situation.

The Bank's Board of Directors determines the Group's risk tolerance as regards liquidity risk. Operational targets for the Group's risk tolerance comprise:

- A minimum share of stable funding by way of deposits from non-financial counterparties and shareholders' equity
- A funding ratio (stable funding incl senior issues with maturities in excess of 1 year relative to loans and advances)
- Liquidity Coverage Ratio (LCR)
- 6-month and 12-month stress scenarios (LCR6 and LCR12).

The LCR, LCR6 and LCR12 are based on a regulatory cautiously determined liquidity buffer involving specific requirements as regards Danish mortgage bonds and the share thereof. The buffer must be sufficient to survive a 30-day stress scenario (LCR) according to regulatory guidance as well as a 6-month and a 12-month stress scenario according to the Group's guidance (LCR6 and LCR12).

The LCR's 30-day horizon specifies a run-off of the Group's exposures, while taking into account counterparties, funding size, hedging and duration. Consequently the most stable deposits (small deposits covered by a guarantee scheme) are favoured relative to large deposits, in particular large deposits from business enterprises and financial counterparties.

LCR (DKKbn)	2016	2015
Total liquidity buffer	28.0	21.7
Net cash outflows	16.9	15.1
LCR (%)	166	144

The regulatory LCR requirement is 100% and consequently the Group's excess cover is significant at 31 December 2016.

Funding ratio (DKKbn)	2016	2015
Shareholders' equity and subordinated capital	13.9	13.6
Senior loans with maturities over 1 year	3.7	0.0
Stable deposits	74.0	70.7
Total stable funding	91.6	84.3
Loans and advances (excl reverse and mortgage-like loans funded via external counterparties)	71.9	74.3
Funding ratio (%)	127	113

As shown above the Group's stable funding exceeds the Group's loans and advances by DKK 19.7bn at 31 December 2016 (2015: DKK 10bn).

The maturity profiles of the Group's debt exposures appear from note 40.

The Board of Directors' requirements regarding the funding structure are based on the following:

- The Group's funding must be diversified so as to minimise to the greatest extent possible reliance on individual sources.
- Compliance with the LCR and the funding ratio target ensures a prudent funding profile and an adequate level of stable non-market-based funding and longer-term market-based funding.
- The LCR and the funding ratio ensure that the higher the level of stable deposits, the lower the necessary level of long-term senior funding. In contrast a falling level of stable deposits will increase the need for long-term senior funding.

- Short-term market funding and funding from financial counterparties must predominantly be used to fund short-term placements and investments in securities which can be realised or which are eligible as collateral with Danmarks Nationalbank or the repo market.

The Group's risk policy states that:

- asset encumbrance may only occur as part of ordinary banking operations and includes securities provided as collateral with the central bank and in the repo market, collateral for clearing transactions as well as collateral under CSA agreements
- asset encumbrance may be by way of deposits with credit institutions or securities
- moreover asset encumbrance may be by way of funding of mortgage-like loans via external counterparties.

The asset encumbrance appears from note 37.

The Group issued senior loans of EUR 500m (DKK 3.7bn) in Q2 2016 with a maturity of two years. When the coming requirements as regards senior issues have been determined in accordance with MREL (minimum requirement for own funds and eligible liabilities) the Group will consider issues with longer maturities.

The Group is considering a senior issue in the course of 2017.

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# Notes – Risk Management

## Operational risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risks.

The Group collects data on all operational events and classifies them in four main groups:

- Operational events without loss
- Operational events, IT
- Operational events, internal
- Operational events, compensation.

Management receives reporting on the basis of these data. Furthermore they form the basis for analyses and research for the purpose of identifying systematics as well as improving on an ongoing basis internal controls, business procedures and routines to minimise the number of errors and the risk of loss.

Moreover the system for collecting data on operational events ensures compliance with the Group's business procedures for approval, information, accounting and payment, if any.

The Group reviews all business units annually with the aim of identifying, describing and analysing the largest individual risks where the Group may incur significant losses as well as the relevant business procedures and routines for the purpose of minimising such risks.

The risk analysis for 2016 was conducted in accordance with changed criteria and shows that the Group has a number of scenarios in which the risk of loss exceeds DKK 5m. At the same time it must be expected that such scenarios – despite risk mitigation by way of for instance business procedures and control environment, requirements as regards access and authorisation as well as insurance cover – will occur within a foreseeable time horizon.

The Group's management has reviewed the extent of such loss scenarios and related risks.

The Group applies the Standardised Approach to calculate the capital requirement in accordance with Basel III.

## IT security

IT supports a large part of the systems and tools used by the Bank's clients and advisers. This function is strengthened by the increased digitization in Sydbank which clients experience by way of increased self-service and improved online services.

Consequently IT security is a significant aspect of the Bank's operational risk.

On an ongoing basis the Group reviews this area – on a strategic level, on an operational level and on a system level if the system is business-critical. As a result requirements have been specified as regards confidentiality, accessibility and integrity of the individual elements of IT security.

The Board of Directors specifies and formulates requirements as regards the IT security policy and the policy forms the basis of the IT security efforts. As part of the IT security efforts a risk analysis is prepared annually in which the objectives regarding confidentiality, accessibility and integrity of each system are assessed in terms of probability, preventive and corrective administrative and technical measures, as well as implications. As a result of this assessment a risk score is assigned to each system. The Board of Directors reviews, updates and approves the IT security policy on the basis of the risk analysis.

In the IT security policy the Board of Directors assesses the current risk scenario and against this background specifies the requirements for eg accessibility and reliability in terms of the different elements of IT supply, including systems and data. As a result of these requirements, a significant part of the Group's use of IT has been mirrored to minimise the risk of operational disruptions.

The IT security policy applies to all aspects of the Bank's IT use and consequently also where IT or parts of it has been outsourced. As a result Sydbank's collaboration with Bankdata, including JN Data, which is responsible for the day-to-day operations, is also comprised by this IT security process.

Contingency exercises are performed on a regular basis to ensure that the Bank is able to tackle any events that may arise.

In accordance with current anti-terrorism and anti-money laundering rules the Bank must ensure that proof of identity of its clients exists. Moreover the Bank must perform routine testing of transactions submitted through the Bank's systems. Suspicious transactions must be reported.

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## Notes – Total capital

The Bank is a licensed financial services provider and must therefore comply with the capital requirements determined by the EU.

The capital adequacy rules require a minimum capital level of 8.0% of risk-weighted exposures plus any additional individual capital needed. Detailed rules regulate the calculation of capital as well as risk-weighted exposures.

Total capital is made up of Tier 1 capital and Tier 2 capital. Tier 1 capital comprises shareholders' equity and Additional Tier 1 capital.

The difference between shareholders' equity and total capital is shown in note 3.

The Group's subordinated capital, Additional Tier 1 capital and Tier 2 capital may, subject to certain conditions, be included in total capital. The conditions are specified in CRR. The Group's subordinated capital is shown in note 33.

The Group has determined capital targets and considers a Common Equity Tier 1 capital ratio of 13.5% as well as a capital ratio of 17% as being satisfactory for the years ahead.

The international rating agency Moody's regularly assesses the Group's ability to honour its payment obligations. The rating targets are an essential part of the Group's capital targets because good ratings give the Group access to the capital markets.

In 2016 the Group met regulatory capital requirements as well as internal capital targets.

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# Management Statement

We have reviewed and approved the 2016 Annual Report of Sydbank A/S.

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU, and the parent company financial statements are prepared in accordance with the Danish Financial Business Act. Furthermore the consolidated financial statements are prepared in compliance with Danish disclosure requirements for listed financial companies.

In our opinion the consolidated financial statements and the parent company financial statements give a true and fair view of the Group's and the parent company's assets, shareholders' equity and liabilities and financial position at 31 December 2016 and of the results of the Group's and the parent company's operations and consolidated cash flows for the financial year 1 January – 31 December 2016. Moreover it is our opinion that the management's review includes a fair review of the developments in the Group's and the parent company's operations and financial position as well as a description of the most significant risks and elements of uncertainty which may affect the Group and the parent company.

We propose that the Annual Report be submitted for adoption by the AGM.

Aabenraa, 1 March 2017

## Group Executive Management

Karen Frøsig  
CEO

Bjarne Larsen

Jan Svarre

## Board of Directors

Torben Nielsen  
(Chairman)

Peder Damgaard  
(Vice-Chairman)

Svend Erik Busk

Alex Slot Hansen

Lars Mikkilgaard-Jensen

Janne Moltke-Leth

Frank Møller Nielsen

Jacob Chr. Nielsen

Jarl Oxlund

Bo Normann Rasmussen

Margrethe Weber



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# Auditors' Reports

## Internal Audit

### To the shareholders of Sydbank A/S

#### Opinion

We have audited the consolidated financial statements and the parent company financial statements of Sydbank A/S for the financial year 1 January – 31 December 2016, which comprise an income statement, balance sheet, statement of changes in equity, statement of comprehensive income and notes, including a summary of significant accounting policies, for the Group and the Company, as well as a cash flow statement for the Group. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for listed financial institutions and the parent company financial statements have been prepared in accordance with the Danish Financial Business Act.

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the Group's and the Company's assets, liabilities and financial position at 31 December 2016 and of the results of the Group's and the Company's operations and the Group's cash flows for the financial year 1 January – 31 December 2016 in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for listed financial institutions in respect of the consolidated financial statements and in accordance with the Danish Financial Business Act in respect of the parent company financial statements.

#### Basis for opinion

We conducted our audit in accordance with the Danish Financial Supervisory Authority's Executive Order on Auditing Financial Undertakings etc. as well as Financial Groups and in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark.

We planned and performed our audit to issue an auditor's report that includes a reasonable assurance conclusion about whether the consolidated financial statements and the parent company financial statements as a whole are free from material misstatement, whether due to fraud or error. We have participated in the audit of all material and risky areas.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Statement on the Management's review

Our opinion on the consolidated financial statements and the parent company financial statements does not cover the Management's review, and we do not express any assurance conclusion thereon.

In connection with our audit of the consolidated financial statements and the parent company financial statements we have read the Management's review and, when doing so, considered whether the Management's review is materially inconsistent with the consolidated financial statements or the parent company financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Based on the work we have performed, we concluded that the Management's review is in accordance with the consolidated financial statements and the parent company financial statements and has been prepared in accordance with the requirements in the Danish Financial Business Act. We did not identify any material misstatements of the Management's review.

Aabenraa, 1 March 2017

**Ole Kirkbak**  
Head of Internal Audit



## To the shareholders of Sydbank A/S

### Opinion

We have audited the consolidated financial statements and the parent company financial statements of Sydbank A/S for the financial year 1 January - 31 December 2016, which comprise an income statement, balance sheet, statement of changes in equity, statement of comprehensive income and notes, including a summary of significant accounting policies, for the Group and the Company, as well as a cash flow statement for the Group. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for listed financial institutions and the parent company financial statements have been prepared in accordance with the Danish Financial Business Act.

In our opinion, the consolidated financial statements give a true and fair view of the Group's assets, liabilities and financial position at 31 December 2016 and of the results of the Group's operations and cash flows for the financial year 1 January - 31 December 2016 in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for listed financial institutions.

In our opinion, the parent company financial statements give a true and fair view of the Company's assets, liabilities and financial position at 31 December 2016 and of the results of its operations for the financial year 1 January - 31 December 2016 in accordance with the Danish Financial Business Act.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and the parent company financial statements" section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements and the parent company financial statements for the financial year 2016. These matters were addressed in the context of our audit of the consolidated financial statements and the parent company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have fulfilled the responsibilities described in the "Auditor's responsibilities for the audit of the consolidated financial statements and the parent company financial statements" section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements and the parent company financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements and the parent company financial statements.

### Measurement of loans and guarantees

- **Risk:** A major part of the Bank's assets consist of loans to the Bank's customers (53% of the Group's total assets), which entail a risk of loss in case of the customer's inability to pay. Also, the bank offers guarantees and other financial products also implying a risk of loss.

During our audit, we primarily focused on the measurement of impairment losses on loans and provisions for losses on guarantees, etc., since this area involves significant amounts and management estimates. In particular, we focused on any evidence of impairment, the realisable value of collateral received as well as the customer's ability to pay in case of default.

Significant loans are measured on an individual basis, whereas impairment losses on smaller loans to private customers are to a large extent measured on the basis of models and portfolio considerations. Furthermore, determination of methods and parameters for measuring collective impairment losses involves significant management estimates, including in par-

# Auditors' Reports

## Independent Auditors' Report

ticular management estimates and adjustments in relation to particularly exposed industries.

- **Audit:** Our audit covered the Bank's procedures for follow-up on loans and registration of evidence of impairment. By way of analysis and sample testing as well as a review of the Bank's procedures, we tested if impairment losses were recognised in accordance with the Bank's accounting policies.

Our review included the largest and most high-risk loans. As for collective impairment losses, we reviewed the method and assumptions used as well as the relating management estimates. In this connection, we reviewed the particular estimates made by Management in connection with impairment losses on loans to agriculture.

Furthermore, we reviewed and tested if note disclosures relating to loans, impairment losses and credit risks meet the relevant accounting rules [note 14 and 18].

### Statement on the Management's review

Management is responsible for the Management's review.

Our opinion on the consolidated financial statements and the parent company financial statements does not cover the Management's review, and we do not express any assurance conclusion thereon.

In connection with our audit of the consolidated financial statements and the parent company financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the consolidated financial statements or the parent company financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Business Act.

Based on the work we have performed, we concluded that the Management's review is in accordance with the consolidated financial statements and the parent company financial statements and has been prepared in accordance with the requirements in the Danish Financial Business Act. We did not identify any material misstatements of the Management's review.

### Management's responsibilities for the consolidated financial statements and the parent company financial statements

Management is responsible for the preparation of consolidated financial statements and parent company financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for listed financial institutions, and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements and parent company financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements and the parent company financial statements, Management is responsible for assessing the Group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the consolidated financial statements and the parent company financial statements unless Management either intends to liquidate the Group or the company or to cease operations, or has no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the consolidated financial statements and the parent company financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements and the parent company financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and parent company financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and the parent company

## Independent Auditors' Report

financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the parent company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the consolidated financial statements and the parent company financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the parent company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements and the parent company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusion is based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the consolidated financial statements and the parent compa-

ny financial statements, including the disclosures, and whether the consolidated financial statements and the parent company financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements and the parent company financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Aabenraa, 1 March 2017

**Ernst & Young**  
Godkendt Revisionspartnerselskab  
CVR no. 30 70 02 28

**Lars Rhod Søndergaard**  
State Authorised Public Accountant

**Klaus Skovsen**  
State Authorised Public Accountant

# Notice Convening the Annual General Meeting

## Notice Convening the Annual General Meeting of Sydbank A/S

Sydbank's Annual General Meeting will be held on Thursday 23 March 2017 at 3:00pm  
in Sønderjyllandshallen, H.P. Hanssensgade 7, 6200 Aabenraa, Denmark.

Agenda according to Article 8 of the Articles of Association:

1. Report of the Board of Directors on the Bank's activities in 2016.
  2. Submission of the audited annual report for adoption.
  3. Motion for the allocation of profit or cover of loss according to the adopted annual report.
  4. Election of members to the Shareholders' Committee.
  5. Appointment of auditors. The Board of Directors proposes the reappointment of Ernst & Young, Godkendt Revisionspartnerselskab in accordance with the recommendation of the Audit Committee. The Audit Committee has in no way been influenced by third parties or been subjected to any agreement with a third party which would limit the general meeting's appointment of certain auditors or audit firms.
  6. Motions submitted by the Board of Directors:
    - a. Reduction of the Bank's share capital of DKK 18,790,250 to DKK 703,611,740. The capital reduction is effected as a payment to shareholders and will be implemented by cancelling 1,879,025 shares of DKK 10 each, purchased during the Bank's share buyback programme in 2016. Payment will be at a premium of 186.26 corresponding to the average repurchase price during the share buyback programme.  
A resolution will imply the following amendment to Article 2 (1) of the Articles of Association:  
*"The share capital of the Bank is DKK 703,611,740 divided into shares in denominations of DKK 10. The share capital is fully paid up."*
    - b. Other amendments to the Bank's Articles of Association concerning substantive changes, see 1 to 6 below, as well as general editorial changes to update the wording. Editorial changes include rewording most of the provisions without any change in meaning where the wording is updated or aligned with the terminology used in the Danish Companies Act. A comparison of the proposed amendments and the current Articles of Association is included in the complete proposals.
- Proposed substantive changes:
1. To specify the powers of the chairman, cf Article 9.
  2. To specify the eligibility for election to the Shareholders' Committee whereby the candidate must reside or have business interests in the region in which he offers himself as a candidate, cf Article 12.
  3. To delete the age limit of 70 years applying to members of the Shareholders' Committee and members of the Board of Directors and to make the 12-year limit on the term of office of board members absolute, cf Articles 12 and 16.
  4. To insert a new provision on determination of remuneration to the members of the Shareholders' Committee corresponding to existing practice, cf Article 14.
  5. To insert a provision that the Board of Directors may (and must) establish board committees, cf Article 17.
  6. To insert a reference to Sydbank's remuneration policy, cf Article 18.
- c. Submission of the revised remuneration policy for adoption.
  - d. Sydbank's Board of Directors is authorised to allow the Bank to acquire own shares at a total value of up to 10% of the Bank's share capital. The price paid for shares may not differ by more than 10% from the price quoted on Nasdaq Copenhagen at the time of purchase. This authorisation will apply for five years.
7. Any other business.

## Notice Convening the Annual General Meeting of Sydbank A/S

The agenda, complete proposals and audited annual report will be available for inspection by the shareholders at [sydbank.dk/generalforsamling](http://sydbank.dk/generalforsamling) and [sydbank.com/generalmeeting](http://sydbank.com/generalmeeting) and at Sydbank's branches no later than three weeks before the general meeting.

The Bank's share capital totals DKK 722,401,990.00. As regards shareholders' voting rights, reference is made to Article 10 of the Bank's Articles of Association.

Shareholders are entitled to attend and to raise questions at the general meeting and to vote according to the number of shares held by a shareholder on the date of registration, which is 16 March 2017.

Admission cards for the general meeting can be ordered at any of Sydbank's branches or at [sydbank.dk/generalforsamling](http://sydbank.dk/generalforsamling) and [sydbank.com/generalmeeting](http://sydbank.com/generalmeeting) no later than Friday 17 March 2017.

If a shareholder wishes to vote by postal vote or to issue an instrument of proxy to the Board of Directors or others, the necessary documents are available at the Bank's websites. Instruments of proxy must have been received by the Bank no later than 17 March 2017 and postal votes must have been received by the Bank no later than 4:00pm, 21 March 2017.

Aabenraa, 22 February 2017

The Board of Directors of Sydbank A/S  
Torben Nielsen, Chairman

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## Board of Directors



### Chairman

Former Central Bank Governor

Torben Nielsen

Haslev

Born: 2 November 1947

**Education:** Banking, Graduate Diploma in Organisation, Industrial Sociology, Credits and Finance. Adjunct professor at CBS

**Elected to Board of Directors:** 2013

**Expiry of current term of office:** 2019

**Independent:** Yes

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**Committee memberships:** Chairman of Nomination Committee and Risk Committee, member of Audit Committee and Remuneration Committee.

### Directorships and other offices:

Tryg A/S, Vice-Chairman

Tryg Forsikring A/S, Vice-Chairman

DLR Kredit A/S, Board member

Investeringsforeningen Sparinvest, Chairman

EIK banki p/f, Faroe Islands, Chairman

Sampension KP Livsforsikring A/S, Board member

Sampension Administrationsselskab A/S, Board member

Museum Sydøstdanmark, Chairman

Vordingborg Borg Fond, Chairman.

**Specific competences:** Management, macroeconomics, monetary policy, financial regulation, credit risks and general banking sector conditions.

**Attendance record in 2016:** 12/12

**Number of Sydbank shares at year-end 2016:** 4,000

**Movement for the year in number of shares:** +2,000



### Vice-Chairman

General Manager, former Principal

Peder Damgaard

Kruså

Born: 13 December 1956

**Education:** MSc (Agriculture)

**Elected to Board of Directors:** 2006

**Expiry of current term of office:** 2017

**Independent:** Yes

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**Committee memberships:** Chairman of Remuneration Committee and member of Risk Committee and Nomination Committee.

### Directorships and other offices:

BoligSyd, Executive Board

BHJ Fonden, Chairman

Grænseforeningen, Board member

A/S Plantningsselskabet Sønderjylland, Board member

Sydbank Sønderjyllands Fond, Board member

Sydbank Fonden, Board member.

**Specific competences:** Management, accounting, economics, mortgage credit and agriculture.

**Attendance record in 2016:** 12/12

**Number of Sydbank shares at year-end 2016:** 966

**Movement for the year in number of shares:** -



**General Manager**

**Svend Erik Busk**

**Aabenraa**

**Born:** 16 January 1948

**Education:** State-Authorised Public Accountant

**Elected to Board of Directors:** 2009

**Expiry of current term of office:** 2019

**Independent:** Yes

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**Committee memberships:** Chairman of Audit Committee.

**Directorships and other offices:**

Bjergmose A/S, Chairman

Van Overbeek ApS, Chairman

ZENI Arkitekter A/S, Board member

Aabenraa Antikvitetshandel, Hans Jørgen Petersen A/S,  
Supervisory Board.

**Specific competences:** Accounting, credit risks and operational risks.

**Attendance record in 2016:** 12/12

**Number of Sydbank shares at year-end 2016:** 1,500

**Movement for the year in number of shares:** –



**Managing Director, Board Chairman**

**Lars Mikkjelgaard-Jensen**

**Rungsted Kyst**

**Born:** 5 August 1954

**Education:** MSc (Economics)

**Elected to Board of Directors:** 2015

**Expiry of current term of office:** 2018

**Independent:** Yes

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**Committee memberships:** Member of Audit Committee.

**Directorships and other offices:**

IBM Danmark ApS, Managing Director, Chairman

IBM Pensionsfond (Pensionskasse), Chairman

Dansk Industri, Chairman

M.J. Grønbech & Sønner Holding A/S, Board member.

**Specific competences:** IT/Digital.

**Attendance record in 2016:** 10/12

**Number of Sydbank shares at year-end 2016:** 2,000

**Movement for the year in number of shares:** +1,650

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## Board of Directors



**General Manager**

**Janne Moltke-Leth**

**Copenhagen**

**Born:** 4 August 1966

**Education:** Graduate Diploma in Business Administration, MSc (International Business Administration and Modern Languages)

**Elected to Board of Directors:** 2016

**Expiry of current term of office:** 2019

**Independent:** Yes

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**Committee memberships:** Member of Remuneration Committee.

**Directorships and other offices:**

Paustian A/S, Executive Board.

**Specific competences:** Management, strategy, business development, innovation, change management and optimisation.

**Attendance record in 2016:** 8/10

**Number of Sydbank shares at year-end 2016:** 51

**Movement for the year in number of shares:** -



**Danish High Court Attorney**

**Frank Møller Nielsen**

**Næstved**

**Born:** 23 October 1956

**Education:** LLM

**Elected to Board of Directors:** 2015

**Expiry of current term of office:** 2018

**Independent:** No

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**Committee memberships:** Member of Nomination Committee.

**Directorships and other offices:**

ROPOX Holding A/S, Chairman

ROPOX A/S, Chairman

H. Nielsen & Søn A/S, Chairman.

**Specific competences:** Strategy.

**Attendance record in 2016:** 12/12

**Number of Sydbank shares at year-end 2016:** 1,537

**Movement for the year in number of shares:** -





**General Manager**

**Jacob Chr. Nielsen**

**Haderslev**

**Born:** 7 June 1973

**Education:** Graduate Diploma in Business Administration, MBA

**Elected to Board of Directors:** 2014

**Expiry of current term of office:** 2017

**Independent:** Yes

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**Committee memberships:** Member of Nomination Committee and Audit Committee.

**Directorships and other offices:**

E 3-Gruppen A/S, Chairman

E 3 Spedition-Transport A/S, Chairman

JCN Holding ApS, Executive Board.

**Specific competences:** Management, accounting, insurance, industry, finance and auditing.

**Attendance record in 2016:** 11/12

**Number of Sydbank shares at year-end 2016:** 77

**Movement for the year in number of shares:** -



**CEO**

**Bo Normann Rasmussen**

**Charlottenlund**

**Born:** 8 April 1969

**Education:** Graduate Diploma in Finance, MSc (Actuarial Science)

**Elected to Board of Directors:** 2015

**Expiry of current term of office:** 2018

**Independent:** Yes

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**Committee memberships:** Member of Risk Committee.

**Directorships and other offices:**

AP Pension Livsforsikringsaktieselskab, Executive Board

AP Pensionservice A/S, Executive Board

AP Ejendomme & Projekter ApS, Chairman

AP Ejendomme A/S, Chairman

nærpension A/S, Board member

Foreningen AP Pension F.m.b.A., Executive Board.

**Specific competences:** Risk management, management, accounting and investment.

**Attendance record in 2016:** 11/12

**Number of Sydbank shares at year-end 2016:** 401

**Movement for the year in number of shares:** +141

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## Board of Directors



**Executive Vice President, Private Banking**

**Alex Slot Hansen**

**Vejle**

**Born:** 26 February 1978

**Education:** Banking, Graduate Diploma in Business Administration

**Elected to Board of Directors:** 2014

**Expiry of current term of office:** 2018

**Independent:** No

**Elected by the employees**

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**Committee memberships:** Member of Remuneration Committee.

**Directorships and other offices:** -

**Specific competences:** Management, economics, investment and accounting.

**Attendance record in 2016:** 12/12

**Number of Sydbank shares at year-end 2016:** 57

**Movement for the year in number of shares:** -



**Chairman of Sydbank Kreds**

**Jarl Oxlund**

**Kolding**

**Born:** 29 April 1967

**Education:** Banking, Graduate Diploma in Business Administration, MSc (Organisational Psychology)

**Elected to Board of Directors:** 2014

**Expiry of current term of office:** 2018

**Independent:** No

**Elected by the employees**

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**Committee memberships:** Member of Risk Committee.

**Directorships and other offices:** -

**Specific competences:** Accounting, bank products, credit risks and organisation.

**Attendance record in 2016:** 12/12

**Number of Sydbank shares at year-end 2016:** 1,200

**Movement for the year in number of shares:** -



**Bank Clerk**

**Margrethe Weber**

**Aabenraa**

**Born:** 8 July 1956

**Education:** Banking, Holder of Business Diploma

**Elected to Board of Directors:** 1993

**Expiry of current term of office:** 2018

**Independent:** No

**Elected by the employees**

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**Committee memberships:** -

**Directorships and other offices:** -

**Specific competences:** Bank products and credit risks.

**Attendance record in 2016:** 12/12

**Number of Sydbank shares at year-end 2016:** 2,106

**Movement for the year in number of shares:** -

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## Group Executive Management

Bjarne Larsen

Jan Svarre



Karen Frøsig



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## Group Executive Management



**CEO**

**Karen Frøsig**

**Bramming**

**Born:** 23 September 1958

**Group Executive Management member since:** 2008

**CEO since:** 2010

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**Directorships:**

Ejendomsselskabet af 1. juni 1986 A/S, Chairman

Diba A/S, Chairman

Foreningen Bankdata, Chairman

National Banks in Denmark, Vice-Chairman

PRAS A/S, Board member

FinanceDenmark, Board member

DLR Kredit A/S, Board member

Totalkredit A/S, Board member

BI Holding A/S, Board member

Musikhuset Esbjerg, Fond, Board member

FR I af 16. september 2015 A/S, Board member

Sydbank Sønderjyllands Fond, Board member

Sydbank Fonden, Board member

Committee on Corporate Governance, member.

**Number of Sydbank shares at year-end 2016:** 3,666

**Movement for the year in number of shares:** -



**Deputy Group Chief Executive**

**Jan Svarre**

**Fredericia**

**Born:** 6 January 1963

**Group Executive Management member since:** 2013

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**Directorships:**

Ejendomsselskabet af 1. juni 1986 A/S, Board member

Diba A/S, Board member

Bolighed A/S, Board member

BOKIS A/S, Board member.

**Number of Sydbank shares at year-end 2016:** 2,195

**Movement for the year in number of shares:** -



**Deputy Group Chief Executive**

**Bjarne Larsen**

**Vamdrup**

**Born: 5 November 1963**

**Group Executive Management member since: 2013**

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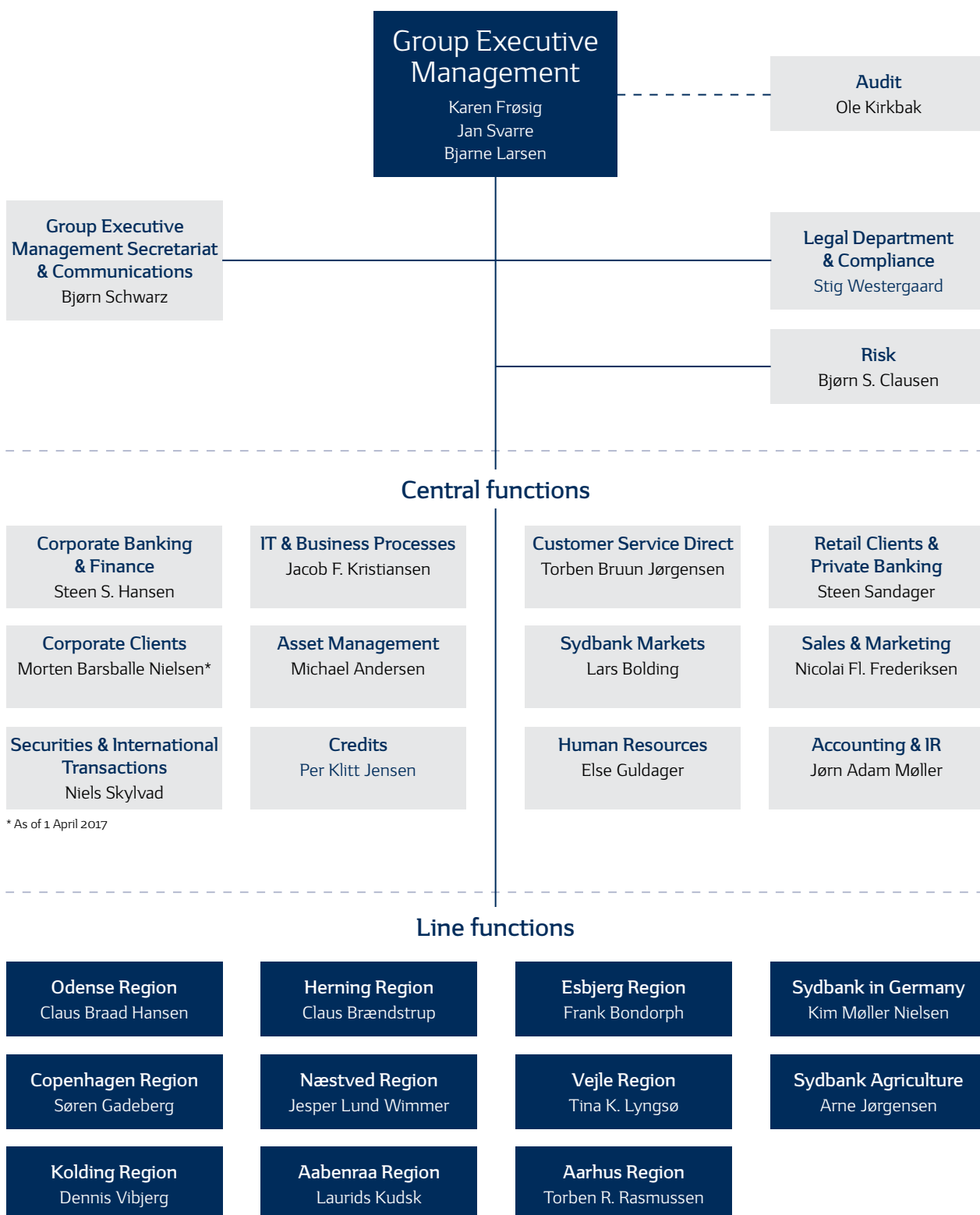
**Directorships:**

Ejendomsselskabet af 1. juni 1986 A/S, Board member  
Diba A/S, Vice-Chairman.

**Number of Sydbank shares at year-end 2016: 1,967**

**Movement for the year in number of shares: -**

# Organisation







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**Sydbank**